

AMS/FAST CHANGE REQUEST (CR) COVERSHEET

Change Request Number: 21-88

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Title: Batch# 8 AMS Guidance

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Policy and Guidance: (check all that apply)

- ☐ Policy
- ☒ Guidance
- ☐ Procurement Forms, Templates and Samples
- ☐ Real Property Templates and Samples
- ☐ Procurement Clauses
- ☐ Real Property Clauses
- ☐ Other FAST Tools and Resources

Summary of Change:

Updated guidance with administrative changes and substantive changes to correspond with the changes made in the procurement forms, templates, samples, and tools and resources documents.

Reason for Change:

Ensure compliance with documents in the procurement forms, templates, samples, and tools and resources sections of FAST and existing AMS policy/guidance to provide for efficient and effective guidance for the use by the AAQ community.

Development, Review, and Concurrence: AAP-110, AAP-100, AAQ, ACG

Target Audience: Acquisition workforce

Briefing Planned: No.

ASAG Responsibilities: No.

Section / Text Location:

Procurement Guidance/T3.2.3

FAST Version 9/2021

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p. 1

Procurement Guidance/T3.2.4
Procurement Guidance/T3.3.1
Procurement Guidance/T3.4.2
Procurement Guidance/T3.6.1

The redline version must be a comparison with the current published FAST version.

☒ I confirm I used the latest published version to create this change / redline

or

☐ This is new content

Links:

Procurement Guidance/T3.2.3
Procurement Guidance/T3.2.4
Procurement Guidance/T3.3.1
Procurement Guidance/T3.4.2
Procurement Guidance/T3.6.1

Attachments: Redline and final documents.

Other Files: N/A.

Redline(s): See following pages.

Section Revised: T3.2.3 – Cost and Price Methodology

Procurement Guidance - (~~7/2021~~9/2021)

T3.2.3 - Cost and Price Methodology Revised 10/2007

A Cost and Price Methodology

1 Proposal Analysis Revised ~~7/2021~~9/2021

2 Independent Government Cost Estimate Revised ~~4/2021~~9/2021

3 Cost Accounting Standards Revised 7/2021

4 Financial Administrative Contracting Officer (FACO) Revised 9/2020

B Clauses

~~C Forms~~

C Procurement Forms Revised 9/2021

D Procurement Samples Revised 9/2021

E Procurement Templates Added 9/2021

F Procurement Tools and Resources Added 9/2021

~~DG Appendix~~ Revised ~~10/2007~~9/2021

1 Appendix - Instructions for Submitting Certified Cost/Price Proposals for Products, Services, or Construction Revised ~~9/2020~~9/2021

~~2 Appendix—Developing A Detailed Independent Government Cost Estimate for Products, Services, or Construction~~ Revised ~~4/2021~~

~~3 Appendix—Template for Detailed Independent Government Cost Estimate for Products, Services, or Construction~~ Revised ~~9/2020~~

T3.2.3 - Cost and Price Methodology Revised 10/2007

A Cost and Price Methodology

1 Proposal Analysis Revised 7/20219/2021

The procurement team is responsible for evaluating proposals using the methods of price and cost analysis appropriate to the procurement. Price and cost analysis are used to determine if prices or costs are reasonable and/or realistic. The CO is responsible for determining whether contract prices are fair and reasonable. The CO may use one or more of the cost and pricing methodologies described in this section based on the complexity and type of acquisition. The CO may request the advice and assistance of other experts to ensure that an appropriate analysis is performed. The complexity and circumstances of each acquisition should determine the level of detailed analysis required. For example, a real property acquisition may only require price analysis while a single source complex major systems acquisition may require certified cost or pricing data, and cost and price analysis.

The data used to perform cost or price analysis should be the most current available data. Use of non-current data should be (i) documented as to why more current data was not used or available, and (ii) adjusted if applicable to reflect the purchasing power of the dollar over time. At a minimum, if the data is two or more years old, explain why the older data (escalated to the current year) is adequate for use in determining fair and reasonable pricing.

a. *Certified Cost or Pricing Data and Data Other Than Certified Cost or Pricing Data.*

(1) Definitions.

(a) *Certified Cost or Pricing Data.* This is cost or pricing data where the offeror certifies as to the accuracy, completeness and currency of the data as of a specific date before execution of the contract action. This includes all facts that prudent buyers and sellers would reasonably expect to significantly affect price negotiations. Certified cost or pricing data are factual, not judgmental; and are verifiable. The Government is entitled to a price adjustment, related to the defective data, if certified cost or pricing data is found to be inaccurate, incomplete, or noncurrent as of the date of the action. For real property acquisitions, certified cost or pricing data is not required.

(b) *Data other than certified cost or pricing data.* This is pricing data, cost data, and judgmental information necessary for the CO to determine a fair and reasonable price and/or to determine realism. Such data may include the identical types of data as certified cost or pricing data, but without the certification. The data may also include any information reasonably required to explain the offeror's estimating process, including, but not limited to-

- (i) The judgmental factors applied and the mathematical or other methods used in the estimate, including those used in projecting from known data; and
- (ii) The nature and amount of contingencies included in the proposed price.

(2) *Types of Data and Evaluation Method.* The CO may require information to support proposal analysis in any of the following degrees of detail:

- (a) Pricing data only and, no cost data when a price analysis is conducted;
- (b) Data other than certified cost or pricing data, when in the CO's opinion it is necessary to determine fair and reasonable price and/or to determine realism, and a price analysis and/or cost analysis is conducted; or
- (c) Certified cost or pricing data, when the offeror certifies to the accuracy, completeness and currency of the data and both price and cost analyses are conducted.

(3) *Decision to Require Data and Information.* A CO has the discretion to determine the level of cost or pricing data required to ensure prices are fair and reasonable. Cost or pricing data should be requested *only* when the CO does not have reasonable assurance that costs or prices are fair and reasonable based on price analysis. When deciding the extent to which cost and pricing data may be required, the CO should consider the cost and schedule burden on the contractor to provide the information.

(a) When the CO determines adequate price competition exists, certified cost or pricing data must not be requested in accordance with Policy 3.2.3.1.2. Adequate price competition may exist when:

- (i) Two or more responsible offerors competing independently submit priced offers responsive to FAA's expressed requirement;
- (ii) There was a reasonable expectation, based on market research or other assessment, that two or more responsible offerors competing independently would submit priced offers responsive to the screening information request's expressed requirement, although only one offer is received from a responsible responsive offeror; or
- (iii) Price analysis clearly demonstrates that the proposed price is reasonable compared to current or recent prices for the same or similar items purchased in comparable quantities, and under comparable terms and conditions under contracts that resulted from adequate price competition.

(b) If the CO determines that the level of competition does not support the determination of price reasonableness, or the offeror's price cannot be determined to be reasonable from price analysis according to T3.2.3.A.1.b. below, then the CO must obtain certified cost or pricing data or data other than certified cost or pricing data to the extent necessary to support a determination of a fair and reasonable price (Policy 3.2.3.1.2). The level of data required should be based on the specific circumstances of the procurement taking into account the factors described in subparagraph (4) "Factors to Consider" below. The CO within his or her discretion may, based on price analysis

alone, determine that an offeror's price is not fair and reasonable without requesting additional cost data.

(4) *Factors To Consider.*

(a) The CO has the flexibility to determine:

- (i) Whether or not to require cost or pricing data;
- (ii) To what degree or level of detail data should be requested; and
- (iii) Whether or not the data should be certified, except for situations where adequate price competition exists (and the CO must not require certified cost or pricing data).

(b) The CO may consider the following factors to determine the appropriate data requirement:

- (i) *Recent Pricing Data.* Availability of information on prices for the same or similar goods or services procured on a competitive basis.
- (ii) *Degree of Competition Attained.* Level to which competitive market forces can be expected to influence submission of reasonable prices.
- (iii) *Uncertainty of the Market Place.* How volatile market prices or technological changes may impact vendor prices or costs.
- (iv) *Availability of Independent Cost Estimate/Data.* The degree of confidence the CO has in the internal estimate or other data which would provide an effective means to objectively evaluate proposed costs or prices.
- (v) *Technical Complexity of Procurement.* The degree to which developmental effort or technical complexity is inherent in the requirement.
- (vi) *Contract Type.* The degree to which the decision of contract type mitigates the risk to the agency.

(5) *Requirement for Certified Cost or Pricing Data.* For supplies, services, and construction contracts, when certified cost or pricing data are necessary, AMS Clauses 3.2.2.3-38, Requirements for Certified Cost or Pricing Data or Other Information, and 3.2.2.3-39, Requirements for Certified Cost or Pricing Data or Other Information – Modifications, must be inserted in the SIR. The clauses require the contractor to submit the information contained in the Appendix 4G1 "Instructions for Submitting Certified Cost/Price Proposals for Supplies, Services, or Construction."

(6) *Requesting Data and Information.* When requesting data other than certified cost or pricing data, it should be limited to the extent necessary to determine reasonableness and/or realism. The level of detail and format of the data requested will be determined by the CO. Generally this will be a modified version of information requested in subparagraph (5), "Requirement for Certified Cost or Pricing Data" above. In the case of a single-source contract, no one may request any type of cost or price information from the vendor until a single-source justification is fully executed.

(7) *Subcontracts.* Contractors are required to submit certified cost or pricing data or data other than cost or pricing data for proposed subcontracts or subcontract modifications only when necessary to determine the reasonableness of the proposed contract or subcontract price, including negotiated final pricing actions. The contractor is responsible for performing cost or price analysis when determining price reasonableness on subcontract proposals and for submitting the subcontract cost or pricing data if requested by the CO.

b. *Price Analysis.* Price analysis is a process of examining and analyzing a proposed price without analyzing its separate cost elements and proposed profit/fee. Price analysis is the most commonly used method of proposal analysis and must be performed on all offeror proposals (Policy 3.2.3.1.2). Even when cost analysis is performed to evaluate individual cost elements of a contractor's proposal, some form of price analysis is needed to ensure that the proposed price is fair and reasonable. There are several techniques that may be used in performing price analysis:

(1) Comparison of proposed prices received in response to the screening information request (See T3.2.3 A 1 e (5) for price comparability considerations);

(2) Comparison of prior proposed prices and contract prices with current proposed prices for the same or similar end items or services in comparable quantities;

(3) Application of rough yardsticks/parametric estimating methods (such as dollars per pound, per square foot, per horsepower, or other units) to highlight significant inconsistencies that warrant additional pricing inquiry;

(4) Comparison with competitive published catalogs or lists, published market prices or commodities, similar indexes, and discount or rebate arrangements;

(5) Comparison of proposed prices with independent government cost estimates;

(6) Comparison of comparable real property from multiple listing services actual sales or appraisals; and

(7) Ascertaining that the price is set by law or regulation.

c. *Cost Analysis.*

(1) Cost analysis is the review and evaluation of the separate cost elements and proposed profit/fee of an offeror's proposal. The CO will determine whether cost analysis is appropriate. Cost analysis is not required to evaluate established catalog or market prices, prices set by law or regulation, real property acquisitions, and commercial items. If there are

significant disparities in proposed prices, a limited form of cost analysis may be used to investigate the cause of the disparities. Cost analysis involves examining data submitted by the contractor and the judgmental factors, if applicable, applied in projecting estimated costs. Cost analysis also includes:

- (a) Verification that the contractor's cost submissions are according to disclosed cost accounting procedures;
- (b) Comparisons with previous costs; and
- (c) Forecasts of future costs based on historical cost experience.

(2) Cost analysis is used to determine cost reasonableness when a fair and reasonable price cannot be determined through price analysis alone, and/or the agency needs an understanding of the cost buildup of the proposal to verify cost realism. The data required to perform the cost analysis should be limited to those cost elements that are necessary to ensure a fair and reasonable, and if necessary, a realistic price determination.

(3) Cost analysis involves the following techniques and procedures:

- (a) Verification of cost or pricing data and evaluation of cost elements, including:
- (b) Evaluation of direct and indirect costs including the application of audited or negotiated indirect cost rates, labor rates, and cost of money or other factors. Proposed direct material costs should be examined for necessity, quantity, type, and price;
- (c) Evaluation of the effect of the offeror's current practices on future costs to ensure that the effects of inefficient or uneconomical practices, if any, are not projected into the future (e.g. trend analysis of labor and materials, evaluation of learning curves or efficiency factors, if applicable);
- (d) Comparison of proposed costs and cost trend projections with actual historical costs, and previous or current cost estimates for the same or similar items, including Independent Government estimates;
- (e) Analysis of the contractor's evaluation in determining the reasonableness of the subcontract costs;
- (f) Determination of whether any cost or pricing data that is necessary to make the contractor's proposal accurate, complete, and current has been submitted or identified in writing; and
- (g) Verification that the offeror's cost submissions are in accordance with the contract cost principles and procedures in T.3.3.2.

(4) *Profit/Fee Analysis.*

- (a) When price analysis techniques are sufficient to ensure a fair and reasonable price, analysis of profit/fee is not appropriate.
- (b) When cost analysis is required for price negotiation, profit/fee is analyzed.
- (c) Profit/fee should be analyzed with the objective of rewarding contractors for:
 - (i) Financial and other risks they assume;
 - (ii) Resources they use; and
 - (iii) Organization, performance, and management capabilities they employ.
- (c) Consideration should be given to the:
 - (i) Ratio of indirect costs to direct costs;
 - (ii) Extent of subcontracting;
 - (iii) Complexity of materials requirements; and
 - (iv) Commitment of capital investments to contract performance.

(e) For the purposes of establishing a negotiation position the CO should use some structured method (e.g. weighted guidelines) for determining the profit/fee appropriate for the work to be performed. For fees not based on cost, the CO is encouraged to establish a structured mechanism under cost reimbursable contracts which relates performance, quality, and/or schedule to fee amounts earned.

d. *Cost and Price Realism*

(1) The purpose of realism analysis is to ensure that proposed prices are not so low such that contract performance is put at risk from either a technical and/or cost perspective. It is separate from analyses performed to determine cost or price reasonableness. Realism analysis determines whether an offeror's proposed costs and/or prices:

- (a) Are realistic for the work to be performed;
- (b) Reflect a clear understanding of the requirements; and
- (c) Are consistent with the various elements of the offeror's technical proposal.

(2) *Cost Realism.*

1. Cost realism analysis is an objective process of identifying the specific elements of a cost estimate or a proposed price and comparing those elements against reliable and independent means of cost measurement. This analysis judges whether or not the estimates under analysis are verifiable, complete, and accurate, and whether or not the offeror's estimating methodology is logical, appropriate, and adequately explained. This

verifies that the costs or prices proposed fairly represent the costs likely to be incurred for the proposed services under the offeror's technical and management approach.

2. Cost realism analysis is used for analysis of proposed costs on cost reimbursement contracts, competitive fixed-price incentive contracts, and may also be used on time and material contracts, and, if necessary, on competitive fixed price contracts.

3. Cost realism analysis determines whether proposed costs may be overstated or understated with respect to performing SIR requirements using the contractor's unique and described methods in the cost and technical proposals. The offeror's Most Probable Cost (MPC) is determined by adjusting each offeror's proposed cost, and fee when appropriate, to reflect any cost additions or reductions in cost elements to realistic levels based on the results of the cost realism analysis.

4. The MPC may differ from the proposed cost and should reflect the Government's best estimate of the cost of any contract that is most likely to result from the offeror's proposal. The MPC, not the proposed cost, is used for purposes of evaluation to determine the best value.

5. Cost Realism Evaluation Steps:

- (i) Obtain data other than certified cost or pricing data from the offeror, including a detailed proposal breakdowns by cost element and the associated basis of estimates (BOEs) for work to be performed.
- (ii) Obtain cost realism analysis support, also known as Qualitative and Quantitative (Q&Q) review. The Procurement Team lead designates a Q&Q Evaluation Team or reviewer from members of the evaluation team. The Q&Q Team should consist of technical evaluators, who do not need to be on the actual Technical. The technical Q&Q team member(s) review the SIR requirements, and each offeror's technical, cost proposal and BOEs, to ensure the cost proposal reflects the resources required to accomplish the work through the unique methods and approaches identified in the offeror's technical proposal. Depending on the nature of the acquisition, the technical Q&Q reviewer must be familiar with the requirement and possess specialized technical knowledge, skills and experience in areas such as engineering, software development or manufacturing in order to perform a technical review of the proposed types and quantities of materials, equipment, labor mix and hours, processes and other associated factors in the offeror's proposals. Based on its results, the Q&Q review should determine which direct labor hours and cost elements should be adjusted to determine MPC.

NOTE: The Technical Q&Q member will only review material quantities, labor hours and mix and does not need to see the prices of the actual proposal.

- (iii) The technical Q&Q reviewer provides the analysis to the cost/price analyst.

NOTE: The technical cost realism reviewer must not be a member of the technical evaluation team unless the technical evaluation has been completed, reviewed, and signed, or the cost proposal is redacted to remove cost and pricing data prior to the start of the review. This is necessary to avoid any potential bias in the technical evaluation related to information in the cost proposal.

- (iv) Obtain information from Government sources related to contractor direct and indirect rates, i.e. Forward Pricing Rate Agreements or Recommendations (FPRA/FPRRs). Revise the offeror's proposed rates to reflect the Government's expectation of final rates, as appropriate.
- (v) The cost evaluator applies the results of the Q&Q review and any rate revisions or applicable updates to other cost elements to determine each offeror's MPC. Fee may be adjusted as appropriate to account for changes in estimated costs. The MPC represents the costs most likely to be incurred by an offeror in performance of the effort. The MPC, not the proposed cost, is used for best value analysis.

(3) *Price Realism.*

1. Price Realism analysis is an objective process that focuses on the proposed price and performance risks. Price realism may be used on competitive fixed priced and/or time and material contracts when new requirements may not be fully understood by the offeror, there are quality concerns, or past experience indicates that contractors' proposed prices have resulted in quality or service shortfalls. The results of the analysis may be used in performance risk assessments and responsibility determinations.

2. Unlike in cost realism analysis, the offeror's proposed price is not adjusted for the Most Probable Cost. The focus is on the price and the ability of the offeror to perform the contract requirements for the proposed price, not the individual cost elements.

3. Price Realism Evaluation Steps:

- (i) Obtain price information from the offeror, but no cost data is provided.
- (ii) Obtain information from Government or industry sources that can be used for price realism determination such as:
 - a. Independent Government Cost Estimate (IGCE);
 - b. Published catalog prices;
 - c. Previous contract prices for similar items in similar quantities procured on a competitive basis;
 - d. Published fully burdened labor rates with similar qualifications and geographic location to those of the proposed labor categories;
 - e. Published price indices such as IHS Global Insight for escalation factors; and
 - f. Other methods of price analysis as described in T.3.2.3.A.1.b.

Note: This step is part of the price analysis step required in all evaluations. The Price Evaluation Team should apply price analysis techniques to support the price realism analysis.

(iii) Obtain the Technical Evaluation Team's final determinations of the offeror's understanding of technical requirements and past performance ratings.

(iv) Obtain the CO's determination of financial capability (part of the responsibility determination).

(v) Document the price realism analysis and its conclusion. If the analysis indicates proposed prices may be unrealistic, the CO may determine that additional analysis, including cost realism, is required. Data other than certified cost or pricing data would be requested to support additional analysis. For realism analyses for fixed-priced or time and material contracts, do not adjust the offeror's proposed fixed price or time and material labor rates.

(4) *Realism Analysis and Risk.* A practical example of the need for realism analysis is the tendency of some contractors to "buy-in" to a contract award. "Buying-in" refers to an offeror submitting an offer below anticipated contract costs. Contractors may "buy-in" for purely business reasons or may expect to recover losses through an increase of the contract price after award or through receiving follow-on contracts at artificially high prices. Buying-in may decrease competition or result in poor contract performance. The CO should minimize the risks associated with buy-ins through the following appropriate actions:

(a) Verify that contract type and price are consistent with the uncertainty and risk to FAA and contractor while at the same time providing the contractor with the greatest incentive for efficient and economical performance;

(b) Ensure the development of a sound government estimate for the products or services to be purchased;

(c) Price contract options for additional quantities together with the firm contract quantity, consistent with program requirements; and

(d) Use cost analysis in evaluating proposals for follow-on contracts and change orders in order to identify if the contractor has proposed artificially high prices to recover losses from the initial contract buy-in.

The foregoing does not mean that the CO should refuse to award a contract when a buy-in is apparent. The CO should evaluate the attendant risks of costs escalating out of control or the contractor not being able to successfully complete performance. For cost-reimbursable contracts, an award based on an unrealistically low cost would represent a significant risk to the agency because the final price paid by the Government is based

on incurred costs. For fixed-price contracts, the cost risk is on the contractor, but an unrealistically low price could create performance risks resulting in poor performance or default. FAA reserves the right to make an informed judgment and decide whether to award or not based on downstream consequences emanating from potential change orders, etc.

- (5) *Evaluation Criteria and Realism Analysis.* When using realism analysis in evaluating offers for contract award, the SIR must state whether cost or price realism will be used as part of the evaluation process and define how the analysis will be considered. The CO may also reserve the right in the SIR to perform price realism on fixed-priced contracts and perform it if necessary, based on proposed prices.

e. Supplemental Pricing Considerations

The following supplemental pricing considerations are not applicable to real property transactions:

(1) *Field Pricing Support.*

Field pricing support is independent support intended to give the CO a detailed analysis and report of the contractor's price or cost proposal or other areas related to contract pricing. Field pricing support personnel include, but are not limited to, auditors, price analysts, quality assurance personnel, and engineers. The CO may request field pricing support when necessary.

(2) *Pre- and Post-Award Audits.*

(a) The CO coordinates with Cost/Price Analysis Services (AAP-500) to request all pre-award/post-award audits on all cost reimbursement contracts (including task orders and contracts where reimbursable CLINs total over 15% of the overall contract value) estimated to exceed \$100 million (including all options). AAP-500 will initiate any pre-award or post award audit requests with Defense Contract Audit Authority (DCAA) or other audit firms to provide audit support services. The FAA also requests audits on at least 15% of all cost reimbursement contracts under \$100 million (Policy 3.2.3.2.2). AAP-500 is responsible for making a determination as to which cost reimbursement contracts under \$100 million will require an audit. It is always within the CO's discretion to request an audit of a contract. If AAP-500 determines not to obtain an audit on a cost reimbursement contract, AAP-500 will document their rationale for AAP-500 files. At the discretion of the CO, audits may also be requested on other types of contracts.

(b) Program offices fund required pre- and post-award audits, except incurred cost audits, which are currently funded by AAP-500. Cost/Price Analysis Services (AAP-500) tracks and manages requested and completed audits. Although DCAA provides audit support for civilian agencies, FAA may also obtain support from other public or private audit organizations as necessary.

(c) The CO should appropriately scope audit requests considering the nature of the procurement, data to be reviewed, recent audits, and the contractor to be audited. Cost/Price Analysis Services (AAP-500) can advise the CO about scoping the request. Audits may cover one or more of the following:

Pre-award

- a. Pre-award survey (new contract)
- b. Proposal audit (full or selected portions)
- c. Forward pricing rates or billing rates
- d. Rate verification (direct and indirect)
- e. Cost Accounting Standards compliance review
- f. Cost accounting system adequacy (labor, indirect and other direct cost systems)
- g. Earned value management system audit
- h. Contractor purchasing system review
- i. Billing system review
- j. Estimating system review
- k. Information technology system review
- l. Material management and accounting system review
- m. Basis of estimate
- n. Bill of material and long lead items

Post-award

- a. Proposal for contract modification
- b. Defective pricing
- c. Incurred cost
- d. Invoice reviews for allowability or improper payment
- e. Claims and request for equitable adjustment
- f. Final price submission
- g. Termination
- h. Closeout

(d) The CO should use good business judgment consistent with applicable AMS guidance when deciding whether to obtain audits. Additionally, the CO should compare and consider the cost of the audit and the expected payback. If a pre-award audit is requested and the CO decides not to obtain an audit, the file should be documented with a rational basis as to why the audit was not obtained.

(3) Defective Pricing.

(a) Defective certified cost or pricing data is data which was provided to FAA in support of a proposal and which was not current, accurate, or complete. It may only occur when certified cost or pricing data is provided. If, before agreement in price, the CO learns that any certified cost or pricing data the contractor provided are inaccurate, incomplete, or not current, the CO should notify the contractor immediately and then negotiate using any new data submitted or make adjustments to account for the incorrect data.

(b) If, after award, certified cost or pricing data are found to be inaccurate, incomplete, or noncurrent as of the date of agreement, the CO should give the contractor an opportunity to support the accuracy, completeness, and currency of the questioned data. In addition, the CO may obtain an audit to evaluate the accuracy, completeness, and currency of the data. The contractor should reimburse FAA for any payments issued based on defective cost or pricing

data during the contract period. The reimbursement should include the amount identified by the CO including profit or fee and interest accrued from the date of the payment. If defective pricing is determined to exist, this fact should be noted in future past performance evaluations.

(c) If a contractor and subcontractor submitted certified cost or pricing data, the CO has the right, under the clause prescribed in the contract to reduce the contract price if it significantly increased due to contractor submitted defective data. This right applies whether the data supported subcontractor cost estimates or firm agreements between subcontractors and contractors. In order to afford an opportunity for corrective action, the CO should give the contractor reasonable advanced notice before determining to reduce the contract price when:

(i) A contractor includes defective subcontract data in arriving at the price but later awards the subcontract to a lower priced subcontractor (or does not subcontract for work). Any adjustment in the contract price due to defective subcontract data is limited to the difference, plus applicable indirect cost and profit/fee, between the subcontract price used for pricing the contract and either the actual subcontract or the actual cost to the contractor.

(ii) Under cost-reimbursement contracts and fixed price incentive contracts, payments to subcontracts that are higher than they would be had there been no defective subcontractor cost or pricing data will be the basis for disallowance or non-recognition of costs.

(4) Unbalanced Offers.

Offeror proposals should be analyzed to determine whether they are unbalanced with respect to prices or separately priced line items. Unbalanced pricing exists when, despite an acceptable total evaluated price, the price of one or more line items is significantly over or understated as indicated by the application of cost or price analysis techniques. This is particularly important when evaluating the prices for options in relationship to the prices for the basic requirements. An offer is materially unbalanced if there is a reasonable doubt that award to the offeror submitting the mathematically unbalanced bid will result in the lowest ultimate cost to FAA; or the offer is so grossly unbalanced that its acceptance would be tantamount to allowing an advance payment. Offers that are materially unbalanced may be rejected.

(5) Comparability Considerations for Price Analysis

For price analysis, the items being compared must have enough similar characteristics or qualities to make the comparison useful. The more similar the items are, the easier the comparison.

Price analysis should still be a valuable tool for comparison when proposals are addressing the same scope and requirements and the IGCE is based on sound and well supported estimates. However, COs should normally place less reliance on comparisons with other proposed prices and/or with the IGCE when requirements can result in proposals with widely different approaches to performance. This is especially critical when evaluating proposals for major complex programs, which usually involve new technologies and services.

If the comparison analysis discloses significant disparities between offers or with the IGCE, the driver for those differences should be identified and also quantified if possible (e.g., widely

different solutions or technical approaches, acquisition of different products, at different times, or in different places) and adjustments made to prices (for evaluation purposes only) before reaching valid conclusions about price reasonableness. Significant differences in prices between offers or with the IGCE may also be an indication that offerors do not understand the requirement or they are offering an unreasonably low price to buy-in.

In these situations, the CO should place more reliance on cost analysis techniques and consider requesting field pricing assistance from technical and engineering experts, including a qualitative and quantitative (Q&Q) review of the offerors approach, proposed resources and technical qualities of the product or service prior to reaching a reasonableness or realism determination. In other words, where the requirements can result in proposals to furnish unlike products, further analysis would be needed beyond a price comparison of competing offers and before deciding that one or another price is reasonable and/or realistic. See steps for conducting Cost or Price Realism in T.3.2.3 1d.

Regardless of contract type and level of competition, cost analysis must be performed if a fair and reasonable determination cannot be reached based on price analysis alone and the agency needs an understanding of the cost buildup of proposals, for example, during evaluation of proposals for complex programs and/or for requirements that can result in proposals with unlike approaches.

(6) Unpriced Options

Every effort should be made to price contract options for additional quantities or services at the time of initial contract award. However, if the circumstances of the acquisition warrant the use of an unpriced option, the CO should consider using a sound and well supported IGCE as a basis to establish not-to-exceed amounts.

The CO should also consider negotiating as much pricing information on the option(s) as possible at the time of initial award when including unpriced options. For example, for T&M contracts, the CO may either incorporate the labor rates evaluated for the initial award or establish the labor categories most likely to support the requirement and request offerors to propose fully burdened labor rates. If not already evaluated as part of the basic contract, the proposed labor rates for the unpriced option should be evaluated for reasonableness and included as part of the basic contract award. The CO may also include a contract clause that gives the right to the FAA to re-evaluate and adjust these rates at the time the option is exercised. In the case of a cost-type contract, the CO should incorporate elements that can be reasonably determinable from the terms of the basic contract, such as fixed or maximum fee or prices for specific items subject to an economic price adjustment provision. Cost analysis should be performed at the time the cost-type option is exercised.

2 Independent Government Cost Estimate Revised 4/2021 9/2021

a. Purpose of an IGCE

(1) An independent Government cost estimate (IGCE) is an internal Government estimate, supported by factual or reasoned data and documentation, describing how much FAA could reasonably expect to pay for needed real property, product or services. It serves as:

- (a) The basis for reserving funds for the procurement action;
- (b) A method for comparing cost or price proposed by offerors;
- (c) An objective basis for determining price reasonableness when only one offer is received in response to a solicitation; and
- (d) A means of detecting offeror buy-ins and identifying unbalanced prices.

(2) The CO must ensure, through cost and/or price analysis, that the final price is fair and reasonable for all acquisitions (Policy 3.2.3). One of several techniques in performing price analysis is comparison of the proposed prices with an IGCE. Its primary objective is to provide the CO with an unbiased, realistic cost estimate for proposed products, services, and construction.

(3) A well-supported IGCE is a valuable tool for price negotiations, especially in the case of a single source acquisition. Clearly defined and supported cost elements such as labor, overhead, and travel enable FAA to make informed negotiation decisions. A well-reasoned IGCE helps FAA to verify completeness of offeror or contractor's cost proposals.

b. *Applicability.* An IGCE is required for procurement actions over \$150,000 (or for any lower dollar value procurement action when the CO determines it necessary) (Policy 3.2.1.2.4), except for:

- (1) Modifications to exercise priced options;
- (2) Incremental funding modifications;
- (3) Delivery orders for priced products or services under indefinite delivery contracts;
- (4) Acquisition of real property for a site-specific requirement for land or antenna/equipment space, where the location of NAS equipment is (1) necessary to the functionality of the NAS, and (2) of continued criticality to the NAS or mission of the FAA; or for operational facilities that house equipment and/or personnel that provide Air Traffic Control services to aircraft operating in the NAS; or
- (5) Supplies or services with prices set by law or regulation.

c. *Responsibility for Preparation.*

(1) The program office is responsible for the IGCE. Non-Government personnel (excluding any personnel of potential offerors) may support a program official in preparing the IGCE. Because the IGCE is procurement sensitive, access to it must be on a need to know basis. The IGCE must be signed and dated by the Government preparer.

(2) The IGCE must not be based on information furnished solely by a potential offer that may be considered for award, or based on an offeror's cost/price proposal after receipt of offers.

d. When to Submit. An IGCE should accompany the procurement request package. The IGCE becomes part of the official contract file documentation.

e. Proper Marking. Each IGCE must be designated and marked, "FOR OFFICIAL USE ONLY."

f. Detailed and Lump Sum Estimates and IGCE Structure.

The complexity of an IGCE depends on the nature and dollar value of the requirement, and an IGCE could be a detailed cost estimate or a lump sum estimate. Detailed estimates encompass an analysis and estimation for individual cost elements (e.g. direct labor, material, other direct costs, indirect costs, and profit). In contrast, the lump sum estimate projects cost or price on a "bottom line" basis. Lump sum estimates do not break down the estimate into various cost elements and may be appropriate for commercial and noncomplex products, services, and real property related services. Lump sum estimates may be useful when the price of an item or service or real property acquisition can be determined without examining individual cost elements, such as when acquiring commercial items or land. The program official determines whether the IGCE should be developed as a lump sum estimate, detailed cost estimate, by contract line item number (CLIN), or by work breakdown structure (WBS). The structure used for the IGCE should track directly to the proposed CLIN structure used in the SIR to allow for valid comparisons in proposal cost and price analyses

g. Commercial and Simplified Procurement Actions. Published price lists, catalog prices, historical prices, General Services Administration (GSA) schedule prices, or market survey prices may suffice for an IGCE involving standard commercial materials, products, equipment, real property related services, and noncomplex services readily available in the commercial market. An IGCE for commercial and noncomplex products, services, and real property related services may entail determining the market value of an item, service, or real property related service and using that as the basis for a lump sum estimate, documenting the research, and then furnishing this information to the CO.

h. Differences Between Proposal Price and IGCE. When there are differences greater than 15% between the price of the offer proposed for award and the IGCE, the CO should notify the program official for appropriate remedial actions. For acquisitions of \$10 million or more, if, after receiving the required CFO approval, there is a difference greater than 15% between the potential contract award and the IGCE, the program office should take the remedial actions described in T3.2.1.4.A.1.k.

i. Cost Estimates by Work Breakdown Structure (WBS). Cost estimates by WBS provide detailed cost estimates for each activity in the WBS and may include vendor quotes or catalog prices for materials and engineering labor estimates.

j. Market Research and Analysis. Market research and analyses may also be used to collect current cost information.

k. Cost Estimation.

(i) Cost estimation is a field of practice that can be simple to complex, depending on the requirement. Cost estimation methods for major system, facilities, and equipment acquisitions are complex and require defined requirements, extensive market research and expert assistance.

(ii) Different approaches are used to develop cost estimates. The cost estimator decides the appropriate approach and it will vary depending on the requirement, amount of data that the estimator has about the item or service to be estimated and the time frame for completion of the estimate. Five common cost estimating methodologies are: Extrapolation from Actuals, Parametric Cost Estimating, Analogy, Engineering (Bottoms Up) and Expert Opinion. There are many Government and private sector publications, models, and tools available on cost estimation. Listed below are several resources available for estimating costs:

DoD Contract Pricing Reference Guide Volume I

NASA Parametric Cost Estimating Handbook

U.S. Army Cost Analysis Manual

NASA Cost Estimating Handbook

(iii) Detailed information on elements included in a Cost Estimate is available in the IGCE Handbook located under Procurement Tools and Resources and a ~~templatesample~~ for preparing an IGCE ~~are~~ is available in Appendices 2 and 3 Procurement Samples.

3 Cost Accounting Standards Revised 7/2021

a. *Applicability.* Full or modified cost accounting standards (CAS) coverage, as appropriate, applies to all cost-type contracts and subcontracts. Categories of contracts and subcontracts exempt from all CAS requirements include:

- (1) Negotiated contracts and subcontracts not in excess of \$2,000,000. For purposes of this arrangement, an order issued by one segment to another must be treated as a subcontract (Policy 3.2.3.4);
- (2) Contracts and subcontracts with small businesses;
- (3) Contracts and subcontracts with foreign governments or their agents or instrumentalities or (insofar as the requirements of CAS other than 9904.401 and 9904.402 are concerned) any contract or subcontract awarded to a foreign concern;
- (4) Contracts and subcontracts in which the price is set by law or regulation;

(5) Firm fixed price and fixed-price with economic price adjustment (provided that the price adjustment is not based on actual costs incurred), time-and- materials, and labor-hour contracts and subcontracts for acquisition of commercial items;

(6) Contracts or subcontracts of less the \$7.5 million, provided that at the time of award the business unit of the contractor or subcontractor is not currently performing any CAS-covered contracts or subcontracts at \$7.5 million or greater;

(7) Contracts and subcontracts to be executed and performed outside the United States, its territories, and possessions;

(8) Contracts for real property; and

(9) Firm-fixed-price contracts or subcontracts awarded on the basis of adequate price competition without submission of cost or pricing data.

b. *Contract Requirements.* A CAS-covered contract may be subject to either full or modified CAS coverage.

(i) Modified CAS coverage applies to contractor business units that received less than \$50 million in net CAS-covered awards in the immediately preceding cost accounting period. Modified CAS coverage only requires that the business unit comply with the following standards:

a. 401, Consistency in Estimating, Accumulating and Reporting Costs

b. 402, Consistency in Allocating Costs Incurred for the Same Purpose

c. 405, Accounting for Unallowable Costs

d. 406, Cost Accounting Period

(ii) Full CAS coverage requires the business unit (as defined in CAS 410-30(a)(2)) comply with all of the CAS in effect on the contract award date, or if required to submit certified cost or pricing data, on the date of the certification, as well as any CAS (or modifications) which become applicable in the future. Full CAS coverage applies to contractor business units that:

a. Received a single CAS-covered contract award, including option amounts, or \$50 million or more; or

b. Received \$50 million or more in CAS-covered contract awards during the immediately preceding cost accounting period.

c. *CAS Administration.* The cognizant CO will perform CAS administration for all contracts in a business unit notwithstanding retention of other administration functions by another CO. Within 30 days after the award of any new contract or subcontract subject to CAS, the CO, contractor, or subcontractor making the award should request the cognizant CO to perform administration for CAS

matters. This is one of the duties of the Financial Administrative Contracting Officers (FACO) for those contractors who are under the cognizance of the FAA.

d. *Waiver.* In some instances, contractors or subcontractors may refuse to accept all or part of the requirements of AMS Clauses 3.2.3-2, Cost Accounting Standards, and 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices. If the CO determines that it is impractical to obtain the materials, supplies, or services from any other source, the CO should prepare a request for waiver.

e. *Responsibilities.*

(1) The CO is responsible for determining when a proposed contract may require CAS coverage and for including the appropriate notice in the screening information request. The CO ensures that the offeror has made the required certifications and that required Disclosure Statements are submitted.

(2) The CO should not award a CAS-covered contract until the FACO has made a written determination that a required Disclosure Statement is adequate unless, in order to protect FAA interest, the CO waives the requirement for an adequacy determination before award. In this event, a determination of adequacy should be required as soon as possible after the award.

(3) The cognizant auditor is responsible for conducting reviews of Disclosure Statements for adequacy and compliance.

(4) The cognizant FACO is responsible for determinations of adequacy and compliance of the Disclosure Statement.

f. *Determinations.*

(1) *Adequacy Determination.* The contract auditor will conduct an initial adequacy review of a Disclosure Statement to ascertain whether it is current, accurate, and complete and will report the results to the cognizant FACO. The FACO will determine whether or not it adequately describes the offeror's cost accounting practices, based on the recommendation of the auditor. If the FACO identifies any areas of inadequacy, the FACO should request a revised Disclosure Statement. If the Disclosure Statement is adequate, the FACO should notify the offeror in writing, with copies to the auditor and FACO. The notice of adequacy should state that a disclosed practice will not, by virtue of such disclosure, be considered an approved practice for pricing proposals or accumulating and reporting contract performance cost data. Generally, the FACO should furnish the contractor notification of adequacy within 30 days after the Disclosure Statement has been received by the FACO.

(2) *Compliance Determination.* After the notification of adequacy, the auditor must conduct a detailed compliance review to determine whether or not the disclosed practices comply with cost principles and the CAS and will advise the CO of the results. The CO should take action regarding noncompliance with CAS. The CO may require a revised Disclosure Statement and adjustment of the prime contract price or cost allowance. Noncompliance with cost principles should be processed separately, in accordance with normal administrative practices.

g. *Subcontractor Disclosure Statements.*

(1) When FAA requires determinations of adequacy, the FACO cognizant of the subcontractor will provide such determination to the FACO cognizant of the prime contractor or next higher tier subcontractor. FACO's cognizant of higher tier subcontractors or prime contractors cannot reverse the determination of the FACO cognizant of the subcontractor.

(2) The agency head may determine that it is not practical to secure the Disclosure Statement, although submission is required, and authorize contract award without obtaining the Statement. The agency head must, within 30 days of having done so, submit a report to the Cost Accounting Standards Board setting forth all material facts. This authority may not be delegated.

h. *Changes to Disclosed or Established Cost Accounting Practices.* Adjustments to contracts and withholding amounts payable for CAS noncompliance, new standards, or voluntary changes are required only if the amounts involved are material. In determining whether amounts of cost are material, the following criteria will be considered by the CO where appropriate; no one criterion is necessarily determinative:

(1) *The absolute dollar amount involved.* The larger the dollar amount, the more likely that it will be material.

(2) *The amount of contract cost compared with the amount under consideration.* The larger the proportion of the amount under consideration to contract cost, the more likely it is to be material.

(3) *The relationship between a cost item and a cost objective.* Direct cost items, since the amounts are themselves part of a base for allocation of indirect costs, will normally have more impact than the same amount of indirect costs.

(4) *The impact of Government participation.* Changes in accounting treatment will have more impact if they influence the distribution of costs between Government and non-Government cost objectives than if all cost objectives are with the Government.

(5) *The cumulative impact of individually immaterial items.* It is appropriate to consider whether such impacts:

(a) Tend to offset one another; or

(b) Tend to be in the same direction and hence to accumulate into a material amount.

(6) The cost of administrative processing of the price adjustment modification should be considered. If the cost to process exceeds the amount to be recovered, it is less likely the amount will be material.

The FACO may forego action to require that a cost impact proposal be submitted or to adjust contracts, if the FACO determines the amount involved is immaterial. However, in the case of noncompliance issues, the FACO should inform the contractor that:

- (1) FAA reserves the right to make appropriate contract adjustments if, in the future, the FACO determines that the cost impact has become material; and
- (2) The contractor is not excused from the obligation to comply with the applicable Standard or rules and regulations involved.

i. *Equitable Adjustments for New or Modified Standards.*

(1) *New or Modified Standards.*

- (a) AMS clause 3.2.3-1, Cost Accounting Standards Notices and Certification, requires offerors to state whether or not the award of the contemplated contract would require a change to established cost accounting practices affecting existing contracts and subcontracts. The FACO ensures that the contractor's response to the notice is made known to the CO.
- (b) Contracts and subcontracts containing AMS clause 3.2.3-2, Cost Accounting Standards, may require equitable adjustments to comply with new or modified CAS. Such adjustments are limited to contracts and subcontracts awarded subject to full CAS coverage before the effective date of each new or modified standard. A new or modified standard becomes applicable prospectively to these contracts and subcontracts when a new contract or subcontract containing AMS clause 3.2.3-2, Cost Accounting Standards, is awarded on or after the effective date of the new or modified standard.
- (c) COs should encourage contractors to submit any change in accounting practice in anticipation of complying with a new or modified standard as soon as practical after the new or modified Standard has been promulgated by the Cost Accounting Standards Board. Any changes should be provided to the FACO for adequacy and compliance determinations.

(2) *Accounting Changes.*

- (a) AMS clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any change in cost accounting practices required to comply with a new or modified CAS within 60 days (or other mutually agreed to date) after award of a contract requiring the change.
- (b) The FACO will request the cognizant auditor to review the proposed change concurrently for adequacy and compliance. If the change meets both tests, the FACO will notify the contractor and may request submission of a cost impact proposal or a

report of general dollar magnitude. However, if the practice is not yet being performed, it may not be able to be tested for compliance.

(3) Contract Price Adjustments.

(a) The FACO should promptly analyze the cost impact proposal with the assistance of the auditor, determine the impact, and negotiate the contract price adjustment on behalf of all Government agencies. The FACO should invite COs from other agencies to participate in negotiations of adjustments when the price of any of their contracts may be increased or decreased by \$10,000 or more. At the conclusion of negotiations, the FACO will:

(i) Inform the COs of affected contracts so the COs may execute supplemental agreements to the contracts;

(ii) Prepare a negotiation memorandum and send copies to cognizant auditors and COs of other agencies having prime contracts affected by the negotiation (those agencies execute supplemental agreements in the amounts negotiated); and

(iii) Furnish copies of the memorandum indicating the effect on costs to the CO of the next higher tier subcontractor or prime contractor, as appropriate, if a subcontract is to be adjusted. This memorandum will serve as the basis for negotiation between the subcontractor and the next higher tier subcontractor or prime contractor and for execution of a supplemental agreement to the subcontract.

(b) If the parties fail to agree on the cost or price adjustment, the FACO may make a unilateral adjustment, subject to contractor appeal.

(4) Remedies for Contractor Failure to Make Required Submissions.

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the FACO, with the assistance of the auditor, estimates the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The FACO then informs the COs who may withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS-covered prime contracts, up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the FACO determines that an adjustment is required, the FACO, with assistance from the CO, should request the contractor to agree to the cost or price adjustment. The contractor should also be advised that in the event no agreement on the cost or price adjustment is

reached within 20 days, the FACO may have the COs make a unilateral adjustment, subject to contractor appeal.

j. *Noncompliance with CAS Requirements.*

(1) *Determination of Noncompliance.*

- (a) Within 15 days of the receipt of a report of alleged noncompliance from the auditor, the FACO makes an initial finding of compliance or noncompliance and advise the auditor.
- (b) If an initial finding of noncompliance is made, the FACO immediately notifies the contractor in writing of the exact nature of the noncompliance and allow the contractor 60 days within which to agree or to submit reasons why the existing practices are considered to be in compliance.
- (c) If the contractor agrees with the initial finding of noncompliance, the FACO reviews the contractor submissions required by paragraph (a) of AMS clause 3.2.3-5, Administration of Cost Accounting Standards.
- (d) If the contractor disagrees with the initial noncompliance finding, the FACO reviews the reasons why the contractor considers the existing practices to be in compliance and make a determination of compliance or noncompliance. If the FACO determines that the contractor's practices are in noncompliance, a written explanation is provided as to why the FACO disagrees with the contractor's rationale. The FACO notifies the contractor and the auditor in writing of the determination. If the FACO makes a determination of noncompliance, the procedures in (b) through (d), as appropriate, are followed.

(2) *Accounting Changes.*

- (a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to submit a description of any cost accounting practice change needed to correct a noncompliance.
- (b) The FACO reviews the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the FACO notifies the contractor and request submission of a cost impact proposal.

(3) *Contract Price Adjustments.*

- (a) The FACO requests that the contractor submit a cost impact proposal within the time specified in AMS Clause 3.2.3-5, Administration of Cost Accounting Standards.
- (b) Upon receipt of the cost impact proposal, the FACO follows the procedures in subparagraph (3) (a) under above paragraph j. "Equitable Adjustments for New or

Modified Standards". In accordance with the AMS Clause 3.2.3-2, Cost Accounting Standards, the FACO must include and separately identify, as part of the computation of the contract price adjustment(s), applicable interest on any increased costs paid to the contractor as a result of the noncompliance. Interest must be computed from the date of overpayment to the time the adjustment is affected. If the costs were incurred and paid evenly over the fiscal years during which the noncompliance occurred, then the midpoint of the period in which the noncompliance began may be considered the baseline for the computation of interest. An alternate equitable method should be used if the costs were not incurred and paid evenly over the fiscal years during which the noncompliance occurred. Interest should be computed pursuant to AMS Clause 3.3.1-9, Interest.

(4) Remedies for Contractor Failure to Make Required Submissions.

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the FACO, with the assistance of the auditor, should estimate the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The FACO should inform the COs who may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS- covered prime contracts, up to the estimated general dollar magnitude of the cost impact until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the FACO determines that an adjustment is required, the FACO, with assistance from the CO, should request the contractor to agree to the cost or price adjustment. The contractor should also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the FACO may have the COs make a unilateral adjustment, subject to contractor appeal.

(c) If the FACO determines that there is no material increase in costs as a result of the noncompliance, the FACO notifies the contractor in writing that the contractor is in noncompliance, that corrective action should be taken, and that if such noncompliance subsequently results in materially increased costs to the FAA, the provisions of AMS Clause 3.2.3-2, Cost Accounting Standards and/or AMS Clause 3.2.3-3, Disclosure and Consistency of Cost Accounting Practices, will be enforced.

k. Voluntary Changes.

(1) General.

(a) The contractor may voluntarily change its disclosed or established cost accounting practices.

(b) The contract price may be adjusted for voluntary changes. However, increased costs resulting from a voluntary change may be allowed only if the CO determines that the change is desirable and not detrimental to the interest of FAA.

(2) Accounting Changes.

(a) AMS Clause 3.2.3-5, Administration of Cost Accounting Standards, requires the contractor to notify the FACO and submit a description of any voluntary cost accounting practice change not less than 60 days (or such other date as may be mutually agreed to) before implementation of the voluntary change.

(b) The FACO reviews the proposed change concurrently for adequacy and compliance. If the description of the change meets both tests, the FACO notifies the contractor and requests submission of a cost impact proposal.

(3) Contract Price Adjustments.

(a) With the assistance of the auditor, the FACO promptly analyzes the cost impact proposal to determine whether or not the proposed change will result in increased costs being paid by FAA. The FACO considers all of the contractor's affected CAS-covered contracts and subcontracts, but any cost changes to higher- tier subcontracts or contracts of other contractors over and above the cost of the subcontract adjustment are not considered.

(b) The FACO then follows the procedures in above subparagraph j, "Equitable Adjustments for New or Modified Standards."

(4) Remedies for Contractor Failure to Make Required Submissions.

(a) If the contractor does not submit the accounting change description or the general dollar magnitude of the change or cost impact proposal (in the form and manner specified), the FACO, with the assistance of the auditor, estimates the general dollar magnitude of the cost impact on CAS-covered contracts and subcontracts. The FACO may then withhold an amount not to exceed 10 percent of each subsequent amount determined payable related to the contractor's CAS- covered prime contracts up to the estimated general dollar magnitude of the cost impact, until the required submission is furnished by the contractor.

(b) If the contractor has not submitted the cost impact proposal before the total withheld amount reaches the estimated general dollar magnitude and the FACO determines that an adjustment is appropriate, the FACO, with assistance from the CO, should request the contractor to agree to the cost or price adjustment. The contractor should also be advised that in the event no agreement on the cost or price adjustment is reached within 20 days, the FACO may have the COs make a unilateral adjustment, subject to contractor appeal.

1. *Subcontract Administration.* When a negotiated CAS price adjustment or a determination of noncompliance is required at the subcontract level, the FACO cognizant of the subcontractor should make the determination and advise the FACO cognizant of the prime contractor or next higher tier subcontractor of his decision. FACOs cognizant of higher tier subcontractors or prime contractors should not reverse the determination of the FACO cognizant of the subcontractor.

4 Financial Administrative Contracting Officer (FACO) Revised 9/2020

a. *Definition.* Financial Administrative Contracting Officers (FACO) are FAA employees who perform financial administration, including system adequacy determination, forward pricing and year-end actual rate administration and negotiation, and cost allowability determination to companies whenever the FAA is the cognizant agency.

b. *Roles and Responsibilities.*

- (1) Establish billing rates, make forward pricing rate recommendations, negotiate forward pricing rate agreements, and negotiate final indirect rates for cost-reimbursement contracts with companies over whom FAA has cognizance;
- (2) Make final determinations on adequacy of contractor accounting systems;
- (3) Determine the contractor's compliance with Cost Accounting Standards (CAS) as applicable;
- (4) Determine the allowability of cost suspended or disapproved, direct suspension or disapproval of costs when there is reason to believe they should be suspended or disapproved;
- (5) Issue Notices of Intent to disallow or not recognize costs;
- (6) Negotiate advance agreements applicable to treatment of certain costs; and
- (7) Send letter(s) to contractor, contracting officers and affected external agencies notifying them of FACO actions, recommendations, negotiations as appropriate.

B Clauses

[view contract clauses](#)

C Procurement Forms Revised 9/2021

[view procurement forms](#)

D

Document Name

Contract Facilities Capital and Cost of Money

D Procurement Samples Revised 9/2021

Document Name

Independent Government Cost Estimate v 1

Independent Government Cost Estimate v 2

E Procurement Templates Added 9/2021

Document Name

F Procurement Tools and Resources Added 9/2021

Document Name

IGCE Handbook

Pricing Handbook

G Appendix Revised 10/20079/2021

1 Appendix - Instructions for Submitting Certified Cost/Price Proposals for Products, Services, or Construction Revised 9/20209/2021

INSTRUCTIONS FOR SUBMITTING COST/PRICE PROPOSALS WHEN CERTIFIED COST OR PRICING DATA ARE REQUIRED

Note 1. There is a clear distinction between submitting certified cost or pricing data and merely making available books, records, and other documents without identification. The requirement for submission of certified cost or pricing data is met when all accurate cost or pricing data reasonably available to the offeror have been submitted, either actually or by specific identification, to the Contracting Officer (CO) or an authorized representative. As later information comes into the offeror's possession, it should be submitted promptly to the CO in a manner that clearly shows how the information relates to the offeror's price proposal. The requirement for submission of certified cost or pricing data continues up to the time of agreement on price, or an earlier date agreed upon between the parties if applicable.

Note 2. By submitting the offeror's proposal, the offeror grants the CO or an authorized representative the right to examine records that formed the basis for the pricing proposal. That examination can take place at any time before award. It may include those books, records, documents, and other types of factual information (regardless of form or whether the information is specifically referenced or included in the proposal as the basis for pricing) that will permit an adequate evaluation of the proposed price.

I. GENERAL INSTRUCTIONS

A. The offeror must provide the following information on the first page of the offeror's pricing proposal:

- (1) Solicitation, contract, and/or modification number;
- (2) Name and address of offeror;
- (3) Name and telephone number of point of contact;
- (4) Name of contract administration office (if available);
- (5) Type of contract action (that is, new contract, change order, price revision/redetermination, letter contract, unpriced order, or other);
- (6) Proposed cost; profit or fee; and total;
- (7) Whether the offeror will require the use of Government property in the performance of the contract, and, if so, what property;
- (8) Whether the offeror's organization is subject to cost accounting standards; whether the offeror's organization has submitted a Cost Accounting Standards Board (CASB) Disclosure Statement, and if it has been determined adequate; whether the offeror have been notified that the offeror are or may be in noncompliance with the offeror's Disclosure Statement or CAS, and, if yes, an explanation; whether any aspect of this proposal is inconsistent with the offeror's disclosed practices or applicable CAS, and, if so, an explanation; and whether the proposal is consistent with the offeror's established estimating and accounting principles and procedures and FAA Cost Principles, and, if not, an explanation;
- (9) The following statement:

"This proposal reflects our estimates and/or actual costs as of this date and conforms to the instructions contained in the Appendix ~~D4G1~~ to AMS Guidance T3.2.3, 'Cost and Price Methodology.' By submitting this proposal, we grant the CO and authorized representative(s) the right to examine, at any time before award, those records, which include books, documents, accounting procedures and practices, and other data, regardless

of type and form or whether such supporting information is specifically referenced or included in the proposal as the basis for pricing, that will permit an adequate evaluation of the proposed price."

(10) Date of submission; and

(11) Name, title and signature of authorized representative.

B. In submitting the offeror's proposal, the offeror must include an index, appropriately referenced, of all the cost or pricing data and information accompanying or identified in the proposal. In addition, the offeror must annotate any future additions and/or revisions, up to the date of agreement on price, or an earlier date agreed upon by the parties, on a supplemental index.

C. As part of the specific information required, the offeror must submit, with the offeror's proposal, certified cost or pricing data (that is, data that are verifiable and factual and otherwise as defined in FAA AMS [Policy](#) Appendix C. The offeror must clearly identify on the offeror's cover sheet that certified cost or pricing data are included as part of the proposal. In addition, the offeror must submit with the offeror's proposal any information reasonably required to explain the offeror's estimating process, including

(1) The judgmental factors applied and the mathematical or other methods used in the estimate, including those used in projecting from known data; and

(2) The nature and amount of any contingencies included in the proposed price.

D. The offeror must show the relationship between contract line item prices and the total contract price. The offeror must attach cost-element breakdowns for each proposed line item, using the appropriate format prescribed in the "Formats for Submission of Line Item Summaries" section of this table. The offeror must furnish supporting breakdowns for each cost element, consistent with the offeror's cost accounting system.

E. When more than one contract line item is proposed, the offeror must also provide summary total amounts covering all line items for each element of cost.

F. Whenever the offeror have incurred costs for work performed before submission of a proposal, the offeror must identify those costs in the offeror's cost/price proposal.

G. If the offeror has reached an agreement with Government representatives on use of forward pricing rates/factors, identify the agreement, include a copy, and describe its nature.

H. As soon as practicable after final agreement on price or an earlier date agreed to by the parties, but before the award resulting from the proposal the offeror must submit a Certificate of Current Cost or Pricing Data as follows:

(1) Certificate

CERTIFICATE OF CURRENT COST OR PRICING DATA

This is to certify that, to the best of my knowledge and belief, the cost or pricing data submitted, either actually or by specific identification in writing, to the CO or to the CO's representative in support of [*] are accurate, complete, and current as of [**]. This certification includes the cost or pricing data supporting any advance agreements and forward pricing rate agreements between the offeror and the Government that are part of the proposal.

[Offeror insert the following information.]

Firm _____

Signature _____

Name _____

Title _____

Date of execution [*** _____]

**Offeror identify the proposal, request for price adjustment, or other submission involved, giving the appropriate identifying number (e.g., SIR No.)*

*** Offeror insert the day, month, and year when price negotiations were concluded and price agreement was reached or, if applicable, an earlier date agreed upon between the parties that is as close as practicable to the date of agreement on price.*

**** Offeror insert the day, month, and year of signing, which should be as close as practicable to the date when the price negotiations were concluded and the contract price was agreed to.*

(End of certificate)

(2) The certificate does not constitute a representation as to the accuracy of the offeror's judgment on the estimate of future costs or projections. It applies to the data upon which the judgment or estimate was based. This distinction between fact and judgment should be clearly understood. If the offeror had information reasonably available at the time of agreement showing that the negotiated price was not based on accurate, complete, and current data, the offeror's responsibility is not limited by any lack of personal knowledge of the information on the part of its negotiators.

(3) The CO and offeror are encouraged to reach a prior agreement on criteria for establishing closing or cutoff dates when appropriate in order to minimize delays associated with proposal updates. Closing or cutoff dates should be included as part of the data submitted with the proposal

and, before agreement on price, data should be updated by the offeror to the latest closing or cutoff dates for which the data are available. Use of cutoff dates coinciding with reports is acceptable, as certain data may not be reasonably available before normal periodic closing dates (e.g., actual indirect costs). Data within the offeror's or a subcontractor's organization on matters significant to offeror management and to FAA will be treated as reasonably available. What is significant depends upon the circumstances of each acquisition.

(4) Possession of a Certificate of Current Cost or Pricing Data is not a substitute for examining and analyzing the offeror's proposal.

(5) If certified cost or pricing data are requested by FAA and submitted by an offeror, but an exception is later found to apply, the data must not be considered certified cost or pricing data and must not be certified in accordance with this subsection.

II. COST ELEMENTS

Depending on the offeror's system, the offeror must provide breakdowns for the following basic cost elements, as applicable:

A. Materials and services. Provide a consolidated priced summary of individual material quantities included in the various tasks, orders, or contract line items being proposed and the basis for pricing (vendor quotes, invoice prices, etc.). Include raw materials, parts, components, assemblies, and services to be produced or performed by others. For all items proposed, identify the item and show the source, quantity, and price. Conduct price analyses of all subcontractor proposals. Conduct cost analyses for all subcontracts when certified cost or pricing data are submitted by the subcontractor. Include these analyses as part of the offeror's own certified cost or pricing data submissions. Submit the subcontractor certified cost or pricing data as part of the offeror's own certified cost or pricing data as required in subparagraph IIA (2) below. These requirements also apply to all subcontractors if required to submit certified cost or pricing data.

(1) Adequate Price Competition. Provide data showing the degree of competition and the basis for establishing the source and reasonableness of price. For interorganizational transfers priced at other than the cost of comparable competitive commercial work of the division, subsidiary, or affiliate of the offeror, explain the pricing method.

(2) All Other. Obtain certified cost or pricing data from prospective sources (i.e., adequate price competition, commercial items, prices set by law or regulation or waiver). Also provide data showing the basis for establishing source and reasonableness of price. In addition, provide a summary of the offeror's cost analysis and a copy of certified cost or pricing data submitted by the prospective source in support of each subcontract or purchase order that is the lower of either \$10,000,000 or more, or both more than the pertinent certified cost or pricing data threshold and more than 10 percent of the prime offeror's proposed price. The CO may require the offeror to submit certified cost or pricing data in support of proposals in lower amounts. Subcontractor certified cost or pricing data must be accurate, complete and current as of the date of final price agreement, or an earlier date agreed upon by the parties, given on the prime offeror's Certificate of Current Cost or Pricing Data. The prime offeror is responsible for

updating a prospective subcontractor's data. For standard commercial items fabricated by the offeror that are generally stocked in inventory, provide a separate cost breakdown, if priced based on cost. For interorganizational transfers priced at cost, provide a separate breakdown of cost elements. Analyze the cost or pricing data and submit the results of the offeror's analysis of the prospective source's proposal. When submission of a prospective source's certified cost or pricing data is required as described in this paragraph, it must be included along with the offeror's own certified cost or pricing data submission, as part of the offeror's own certified cost or pricing data. The offeror must also submit any other certified cost or pricing data obtained from a subcontractor, either actually or by specific identification, along with the results of any analysis performed on that data.

B. Direct Labor. Provide a time-phased (e.g., monthly, quarterly, etc.) breakdown of labor hours, rates, and cost by appropriate category, and furnish bases for estimates.

C. Indirect Costs. Indicate how the offeror have computed and applied the offeror's indirect costs, including cost breakdowns. Show trends and budgetary data to provide a basis for evaluating the reasonableness of proposed rates. Indicate the rates used and provide an appropriate explanation.

D. Other Costs. List all other costs not otherwise included in the categories described above (e.g., special tooling, travel, computer and consultant services, preservation, packaging and packing, spoilage and rework, and Federal excise tax on finished articles) and provide bases for pricing.

E. Royalties. If royalties exceed \$1,500, the offeror must provide the following information on a separate page for each separate royalty or license fee:

- (1) Name and address of licensor.
- (2) Date of license agreement.
- (3) Patent numbers.
- (4) Patent application serial numbers, or other basis on which the royalty is payable.
- (5) Brief description (including any part or model numbers of each contract item or component on which the royalty is payable).
- (6) Percentage or dollar rate of royalty per unit.
- (7) Unit price of contract item.
- (8) Number of units.
- (9) Total dollar amount of royalties.

(10) If specifically requested by the CO, a copy of the current license agreement and identification of applicable claims of specific patents.

F. Facilities Capital Cost of Money. When the offeror elects to claim facilities capital cost of money as an allowable cost, the offeror must submit form "Contract Facilities Capital and Cost of Money." (see AMS Procurement Forms). The offeror must show the calculation of the proposed amount.

III. FORMATS FOR SUBMISSION OF LINE ITEM SUMMARIES

A. New Contracts (including letter contracts)

(1)	(2)	(3)	(4)
COST ELEMENTS	PROPOSED CONTRACT ESTIMATE- TOTAL COST	PROPOSED CONTRACT ESTIMATE- UNIT COST	REFERENCE

Column Instruction

(1) Enter appropriate cost elements.

(2) Enter those necessary and reasonable costs that, in the offeror's judgment, will properly be incurred in efficient contract performance. When any of the costs in this column have already been incurred (e.g., under a letter contract), describe them on an attached supporting page. When preproduction or startup costs are significant, or when specifically requested to do so by the CO, provide a full identification and explanation of them.

(3) Optional, unless required by the CO.

(4) Identify the attachment in which the information supporting the specific cost element may be found. (Attach separate pages as necessary.)

B. Change Orders, Modifications, and Claims.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
COST ELEMENTS	ESTIMATED COST OF ALL WORK COMPLETED	COST OF DELETED WORK	NET COST TO BE DELETED	COST OF WORK ADDED	NET COST OF CHANGE	REFERENCE

		ALREADY PERFORMED				

Column Instructions

- (1) Enter appropriate cost elements.
- (2) Include the current estimates of what the cost would have been to complete the deleted work not yet performed (not the original proposal estimates), and the cost of deleted work already performed.
- (3) Include the incurred cost of deleted work already performed, using actuals incurred if possible, or, if actuals are not available, estimates from the contractor's accounting records. Attach a detailed inventory of work, materials, parts, components, and hardware already purchased, manufactured, or performed and deleted by the change, indicating the cost and proposed disposition of each line item. Also, if the contractor desires to retain these items or any portion of them, indicate the amount offered for them.
- (4) Enter the net cost to be deleted, which is the estimated cost of all deleted work less the cost of deleted work already performed. Column (2) minus Column (3) equals Column (4).
- (5) Enter the contractor's estimate for cost of work added by the change. When nonrecurring costs are significant, or when specifically requested to do so by the CO, provide a full identification and explanation of them. When any of the costs in this column have already been incurred, describe them on an attached a supporting schedule.
- (6) Enter the net cost of change, which is the cost of work added, less the net cost to be deleted. Column (5) minus Column (4) equals Column (6). When this result is negative, place the amount in parentheses.
- (7) Identify the attachment in which the information supporting the specific cost element may be found. (*Attach separate pages as necessary.*)

~~2 Appendix—Developing A Detailed Independent Government Cost Estimate, for Products, Services, or Construction~~ ~~Revised 4/2021~~

~~(1) Developing a Detailed Cost Estimate. An IGCE should be independently prepared by a subject matter expert(s). To begin, the estimator should perform a detailed analysis of the requirement. The estimator should be familiar with the market for the item, including prior prices, inflation, market conditions, quantity, existing and emerging technologies, and substitutions. The estimator should be able to explain clearly the rationale used to develop the estimate and document the results. The estimator should list any assumptions, methodology used, and reference material used in developing the estimate.~~

Narrative—The IGCE must include a narrative that details and supports the basis of the estimates. The estimator must clearly explain the rationale used to develop the estimate and document the results. Estimates must be supported by substantial evidence that results in a logical conclusion. The estimator must document any assumptions, judgement factors, methodology used, and reference materials and sources of information used in developing the estimate.

Detailed Cost Estimate—Standard Elements. The following description of standard cost elements used in a detailed estimate is intended to assist in the preparation of a detailed IGCE. A sample format for a detailed cost estimate for products, services, or construction is in Appendix 3.

a. Estimating Labor Hours

(i) Labor costs are usually the most significant part of the cost estimate for a contract. Direct labor is the labor directly applied to the task or project performed under a contract. Estimating hours for individual labor categories may be achieved using one or a combination of several techniques.

(ii) Evaluating historical actual cost data gathered from FAA contracts for similar goods or services to estimate future requirements. The comparison between past and future items or services can be accomplished at a summary or task level. Many companies keep detailed cost records at the task level, which may be utilized if FAA has access to these records. When using this method consider aberrations that could skew the estimate. Consider also possible reductions in labor hours resulting from improvement from experience. This reduction can be estimated using learning curve theories.

(iii) Labor standards may be used to estimate labor hours for manufacturing or repetitive functions. Labor standards are developed from data within the company, data published by trade associations, and data gathered from various other reference sources. For example, a company may determine that to produce a widget requires a standard of 12 hours of an engineer's time. This means that on average 12 engineer hours are needed to produce one widget; the actual time may vary from widget to widget.

(iv) Estimates based on the professional experience and judgment of engineers and managers may be used to estimate labor hours, but it is the least accurate approach to estimating. Determining the proper mix of labor categories is important to make sure that the type of labor as well as the skill level of workers is appropriate for the work to be performed.

(v) Labor hours may vary from year to year depending on the goods or services acquired. Estimated hours should be adjusted when more or less work is anticipated in different years.

~~(vi) The productive hours for full-time contractor personnel should account for the anticipated vacations, holidays, sick days, and other administrative days. The number of potential work hours in a year is 2,080 (40 hours per week X 52 weeks per year); from the 2,080 hours estimated hours for vacation time (e.g. 120 hours), holidays (e.g. 80 hours), and sick leave (e.g. 40 hours) should be deducted (2,080 hours — 120 vacation hours — 80 holiday hours — 40 sick leave hours = 1,840 productive or direct hours).~~

Documenting the methods used to estimate labor hours is essential to support the independent government cost estimate. This information must be included in the IGCE narrative. Maintain copies of all source information.

b. Estimating Labor Rates. Estimates for labor rates may be derived from many sources including the following:

~~(i) Historical trends on FAA contracts for similar goods or services (be sure to determine if the labor rates are for direct labor or fully loaded rates that include overhead, general and administrative, and profit) such as the Electronic FAA Accelerated and Simplified Tasks (eFAST), and the NAS Implementation Support Contract (NISC).~~

~~(ii) Labor rates for similar services from General Services Administration (GSA) Federal Supply Schedules (FSS), Bureau of Labor Statistics (BLS), Office of Personnel Management (OPM) for comparison to federal employee salaries, and private surveys of labor rates may be used. Be sure to determine if the labor rates are for direct labor or fully loaded rates that include overhead, general and administrative, and profit.~~

~~(iii) Geography may influence labor rates. Work locations should be considered because labor rates vary significantly by location for the same labor skills.~~

~~(iv) When the potential contractor is known (such as in a single source or contract modification situation) forward pricing rate agreements (FPRA) with the federal government (often through FAA or Defense Contract Management Agency (DCMA)) may be available and should be used to support estimated labor rates.~~

~~(v) In the situation of a known contractor, a comparison of labor rates among FAA contracts should be performed; that is checking the labor rates with the labor rates on other FAA contracts (such as eFAST and NISC) for the same labor categories by the same contractor. This comparison avoids paying higher rates for the same labor categories by the same contractor for similar work.~~

~~(vi) Labor rates for future periods may be estimated by performing a trend analysis of past labor rates on similar projects, or by escalating labor rates. Escalation must be substantiated by a recognized source such as IHS Global Insight (available on the FAA website) or Bureau of Labor Statistics indices (Consumer Price Index or Producer Price Index).~~

~~(vii) Estimates for exempt employees may be estimated for positions performing similar duties covered in Office of Personnel Management (OPM) position descriptions (PD) for general schedule (GS) or wage grade (WG) employees. For example, if an information technology management analyst was required, using OPM's "position classification" worksheet for a series GS-2210 for an information technology management analyst, following the worksheet instructions, the required analyst may be rated as a GS-14 employee equivalent. The salary tables published by OPM states that a GS-14, at a step 5 earns \$106,427 per year (base without locality) or \$51.17 per hour. This figure could be used as the basis for estimate.~~

~~(viii) Estimates for non-exempt labor for services and construction are available from the Department of Labor wage determinations provided under the provisions of the Service Contract Labor Standards and the Davis Bacon Act. A non-exempt employee covered by one of these acts must be paid no less than the rate of pay listed in the wage determination. Examining the list may help in determining the appropriate labor categories.~~

Documenting the methods used to estimate labor rates is essential to support the independent government cost estimate. This information must be included in the IGCE narrative. Maintain copies of all source information.

~~c. Estimating Indirect Costs.~~

~~(i) The following definitions are provided for indirect costs:~~

<u>Terms</u>	<u>Definitions</u>
Indirect Cost	Any cost that cannot be <i>directly</i> identified with a single final cost objective (i.e. one contract) but can be identified with multiple final cost objectives (i.e. multiple contracts or the overall business).
Fringe Benefit Expenses	Costs of employee benefits—health insurance, vacation, as well as payroll taxes. These costs may be included in Overhead, rather than being a separate rate
Overhead Expenses	Costs benefiting more than one contract, such as supervision, training, and professional membership fees
General and Administrative (G&A) Expenses	Expenses that benefit the business as a whole, such as executives, accounting, and legal.

Material Handling Rate	Costs associated with ordering, receiving, inspecting, and shipping materials even when purchased for FAA at cost. Costs associated with subcontracts, including subcontract management
Facilities Capital Cost of Money (FCCM)	FCCM is an imputed cost that represents the cost to the contractor employing capital when investing in facilities or assets under construction that benefit FAA.
Indirect Cost Pool	An indirect cost pool is a logical grouping of incurred costs identified with multiple final cost objectives.
Allocation Base	The costs over which the indirect rates are spread (the denominator in the indirect rate calculation). The allocation base and the indirect costs in the associated pool must have a causal/beneficial relationship.

~~(ii) When the potential contractor is known (such as in a single source or contract modification situation) forward pricing rate agreements (FPRA) with the federal government (often through FAA or Defense Contract Management Agency (DCMA)) may be available and must be used to support estimated indirect rates.~~

~~a. There may also be a forward pricing rate recommendation (FPRR) available, if no FPRA. This may come from FAA, DCMA, DCAA.~~

~~(iii) Understanding the composition of each indirect cost or overhead pool is important to ensure proper treatment of costs and to avoid duplication. If a cost estimate contains fully loaded rates, fringe benefits, overhead, G&A, and fee should already be included. Additional overhead should not be applied to avoid over estimating the cost.~~

~~d. *Material Overhead.* Material overhead or material handling includes the expenses associated with acquiring, transporting, receiving, inspecting, handling, and storing materials. Different options exist for collecting and allocating indirect material-related costs. Because material costs can vary significantly from contract to contract, a separate pool ensures that overhead costs are charged commensurately with the material cost in the contract. This pool often contains subcontract expenses, as well.~~

~~e. *Labor Overhead.*~~

~~(i) Labor overhead includes:~~

~~a. Indirect labor consisting of supervision, inspection, maintenance, custodial, and other personnel whose labor is not charged directly to a production or operation;~~

~~b. Costs associated with labor such as Social Security, unemployment taxes, and fringe benefits, if not in a separate indirect cost pool;~~

~~c. Indirect supplies such as small tools and janitorial supplies; and~~

~~d. Fixed charges such as depreciation, insurance, rent, and property taxes.~~

~~(ii) Overhead may vary significantly if the work is being performed on-site (contractor's location) or off-site (government's location). Off-site work normally is lower because the contractor does not need to maintain a building and avoid costs such as utilities.~~

~~(iii) Labor overhead is often separated by labor function such as engineering and manufacturing overhead.~~

~~f. *Fringe Benefits Overhead.* Contractors often have a separate pool for fringe benefits. Fringe benefits may include:~~

~~(i) Vacation leave;~~

~~(ii) Sick pay;~~

~~(iii) Holidays;~~

~~(iv) Health Insurance;~~

~~(v) Payroll taxes; and~~

~~(vi) Supplemental unemployment benefits.~~

~~g. *General and Administrative (G&A) Expense.*~~

~~(i) General and administrative costs typically include labor for corporate officers, clerical personnel, accountants, human resources personnel, purchasing agents, and attorneys. It also includes the cost of corporate level equipment, office supplies, utilities, interest expense, and legal costs.~~

~~(ii) The G&A allocation base one of three groups of costs:~~

~~a. Total cost input (TCI) is the preferred base to apply the G&A rate. The total cost input base includes all costs, both direct and indirect (excludes profit). This approach must be used unless there is a reasonable basis to use one of the other approaches~~

b. ~~Value-added cost input is total cost minus material and subcontract costs. Value added is appropriate when the inclusion of material and subcontract costs would distort the G&A allocation. When material and subcontract costs are significant, the use of value-added G&A allocation may be a better measure of G&A expense than total cost input.~~

c. ~~Single element cost input would use one cost element to allocate G&A expense. For example, the G&A rate would be multiplied by only the direct labor cost. This approach may be used when there are no other significant cost elements, or when other significant elements vary in the same proportion to total costs. This is the least preferred method.~~

h. ~~*Material Costs.* The following approaches could support the estimated cost for materials:~~

~~(i) If the contract is a follow-on or is similar to another FAA contract, the purchase history of the costs of materials could be a basis for estimate. The IGCE narrative should explain the similarities between the needed material and the historical basis. The estimate must be supported with accounting records, vendor invoices, bills of material, or other documentation that can support a per unit cost of the items being acquired. Any modification required for the new item being acquired should be estimated and supported.~~

~~(ii) Commercial items and catalog prices could be used to estimate material costs. Examples would include things like security cameras and doors. Copies of the catalogs used to estimate the material cost should be retained.~~

~~(iii) Vendor quotes can be used to estimate material costs. Vendor quotes from similar FAA contracts may be used to estimate material costs for the new acquisition.~~

~~(iv) Prices of some commodities may be regulated by law; in this case a copy of the law listing the particular commodity's price would support the cost estimate.~~

~~(v) The Producer Price Index (PPI) is an example of a widely used published index for escalation of material cost. The Bureau of Labor Statistics' PPI lists products by commodity groups and individual items. Trade and industry publications are other possible sources for obtaining appropriate data for material cost escalation.~~

i. ~~*Escalation.* Future periods may be estimated by performing a trend analysis of past projects that are similar to the proposed work, or by using escalation factors. Escalation must be substantiated by a recognized source such as IHS Global Insight or~~

~~the Bureau of Labor Statistics indices (Consumer Price Index or Producer Price Index).~~

~~j. *Other Direct Costs (ODC).* Other direct costs (ODC) are costs charged directly to the contract that have not been included in proposed material, direct labor, indirect costs, or any other category of costs. Examples of ODC include special tooling, shipping expenses, reproduction costs, royalties, and federal excise taxes. All ODC should be listed in the IGCE, and supporting documentation retained and available for inspection by interested third parties.~~

~~k. *Travel Costs.* The program office must estimate the number of trips, the origin and destination for each trip, the length of stay, and the number of persons per trip before estimating the cost of travel. The purpose for the trips should be included in the IGCE narrative. Travel costs usually include cost of transportation, lodging, and meals and incidental expenses. The Federal Travel Regulation prescribed by the General Services Administration should be used to estimate lodging, meal and incidental expense, mileage for privately owned vehicles used for official travel, and so forth. Estimates for airfare and car rentals can be obtained using several travel web sites. (Note: make and retain copies of all source information used for travel estimates.)~~

~~l. *Profit or Fee.* Profit is the revenue in excess of the costs to perform a firm fixed price contract, and a fee is a flat charge paid in addition to costs on cost reimbursable contracts. The use of several forms may develop an estimated profit by using weighted averages for different functions. These forms include DOT Form 4220 and DD Form 1547. A simpler approach is to apply a percentage to the total cost, excluding any directly reimbursable items. The percentage will vary according to risk factors, market factors, and location.~~

3 Appendix -- Template for Detailed Independent Government Cost Estimate for Products, Services, or Construction Revised 9/2020

Detailed Independent Government Cost Estimate

Independent Government Cost Estimate for _____

Prepared by: _____

Office title and phone: _____

Date: _____

Direct Labor by Category	Hours		Hourly Rate		Total
		X		=	
		X		=	
		X		=	

		X		=	
			Subtotal		
Labor Overhead (— %) of labor					
Total Labor (Direct Labor + Labor Overhead)					
Direct Material					
Purchased Parts and Supplies					
Subcontracts					
Other Material					
Total Material					
Other Direct Costs					
Travel					
Consultants					
Special Equipment					
Other					
Total Other Direct Cost					
TOTAL DIRECT COST = (Labor + Material + Other Direct Cost)					
GENERAL AND ADMINISTRATIVE EXPENSE = (— %) X Total Direct Cost					
				Subtotal	
FEE/PROFIT = (— %) X (Direct Cost + General and Administrative)					
TOTAL ESTIMATED COST					

Narrative for basis of estimate attached

Section Revised: T3.2.4 – Type of Contracts

Procurement Guidance - (~~7/2021~~9/2021)

T3.2.4 - Types of Contracts Revised 7/2009

A Types of Contracts Revised 7/2007

1 General Considerations Added 7/2007

2 Fixed-Price Revised 9/2020

3 Cost-Reimbursement Revised ~~10/2019~~9/2021

4 Incentive Contracts Revised 7/2009

5 Indefinite Delivery Revised 7/2019

6 Time-and-Materials / Labor-Hour Revised 7/2017

7 Letter and Ceiling Priced Contracts Revised ~~4/2021~~9/2021

8 Multi-year Contracting Revised 7/2007

9 Options Revised ~~10/2020~~9/2021

10 Basic Agreement Revised 7/2007

11 Basic Ordering Agreement Revised 7/2007

B Clauses

~~C Forms~~

C Procurement Forms Revised 9/2021

D Procurement Samples Revised 9/2021

E Procurement Templates Added 9/2021

F Procurement Tools and Resources Added 9/2021

~~DG Appendices~~ Revised ~~7/2008~~9/2021

1 Appendix – Award Fee Revised ~~4/2021~~9/2021

~~2 Appendix – Sample Award Fee Performance Evaluation Plan~~ Revised 4/2021

~~3 Appendix – Incentive~~2 Appendix – Incentive Contracts Guide Revised ~~4/2021~~9/2021

T3.2.4 - Types of Contracts Revised 7/2009

A Types of Contracts Revised 7/2007

1 General Considerations Added 7/2007

- a. The Contracting Officer (CO) determines the type of contract. A variety of factors influence the CO's decision, such as nature and complexity of the requirement, degree to which requirements can be described, performance period, need for incentives, urgency, market conditions, industry practices, or procurement history.
- b. Circumstances may change during implementation of a large program, a series of contracts, or a single long-term contract, and a different contract type may be appropriate in later periods than that used at the outset. Also, a combination of contract types may be appropriate for different aspects of a requirement under one contract award.
- c. The CO uses sound judgment when selecting a contract type. Depending on the circumstances, it may be a matter for communication with vendors because contract price is closely related to contract type. The CO's objective should be to choose a contract type and price that will result in reasonable contractor risk and ensure efficient and economical contractor performance.
- d. Performance requirements must be realistic, manageable, and within the control of the parties to the contract. The procurement team (CO, program official, legal counsel, and other staff) should, to the extent possible, assess and discuss contract performance risks and ensure contract requirements and terms are clear. Contract terms must be reasonable to both FAA and the contractor.

2 Fixed-Price Revised 9/2020

- a. *General.* Fixed-price types of contracts provide for a firm price or, in appropriate cases, an adjustable price. Fixed-price contracts providing for an adjustable price may include a ceiling price, a target price (including target cost), or both. Unless otherwise specified in the contract, the ceiling price or target price is subject to adjustment only by operation of contract clauses providing for equitable adjustment or other revision of the contract price under stated circumstances.
- b. *Firm Fixed-Price.*

(1) Description:

- (a) Provides for a price that is not subject to change regardless of the actual costs incurred by the contractor after award.
- (b) Places maximum risk upon the contractor and full responsibility for all costs and resulting profit or loss with maximum incentive to control costs and perform effectively.

(c) Imposes minimum administrative burden upon the contracting parties.

(2) Use When:

(a) Performance risk can be reasonably predicted or where risk is minimal.

(b) For commercial items or commercial-type products or other supplies or services on the basis of reasonably definite functional or detailed specifications.

(c) Available cost or pricing information permits realistic evaluation of probable costs of performance or the CO can establish fair and reasonable prices at the outset.

(d) The contractor is willing to accept a firm fixed price representing assumption of the risks involved.

(e) For real property transactions where the vendor is willing to accept a fixed rate over the entire contract term representing the rental value for the land or space. (See also T3.8.8.B.5 for Rent Payment Structure)

(3) Considerations:

(a) Contractor is responsible for cost control and associated risks.

(b) Careful evaluation of project requirements and the Offeror's price proposal must be made to ensure a meeting of the minds and ensure price does not include excessive allowance for risk.

c. Fixed-Price with Economic Price Adjustment.

(1) Description:

Same as fixed price, except provides for an upward or downward revision of the stated contract price based on the occurrence of specific conditions specified in the contract.

Adjustments are of three general types:

(a) Established prices. Increases or decreases from an agreed upon level in published or otherwise established prices of specific items or the contract end items. Normally restricted to industry-wide contingencies.

(b) Actual costs of labor or material. Increases or decreases in specified costs of labor or material that the contractor actually experiences during contract performance. Should be limited to contingencies beyond the contractor's control.

(c) Cost indexes of labor or material. Increases or decreases in specified costs of labor or material cost standards or indexes that are specifically identified in the contract.

(d) Actual costs of taxes. Increases or decreases in specified costs associated with state or local taxes during the term of any real property contract.

(2) Use When:

There is considerable doubt concerning the stability of the market or labor conditions that will exist during an extended contract period (i.e., during periods of high or significant fluctuations in inflation), and where the performance period is greater than one year.

(3) Considerations:

(a) Risk for contractor reduced.

(b) Important to ensure that the contingency (typically an index published by the Bureau of Labor Statistics) is a reliable indicator of the contractor's probable changes in cost. For example, the Employment Cost Index (ECI) is generally preferable to the Consumer Price Index (CPI-U) if labor costs are the primary component of the contractor's price. For real property contracts, the Cost of Living Index found in the U.S. Department of Labor Revised Consumer Price Index for Urban Wage Earners and Clerical Workers, will be incorporated into the fixed price amount and paid in accordance with the terms of the contract.

(c) Should not be used unless it is necessary either to protect the contractor and the FAA against significant fluctuations in labor or material costs, or market conditions.

(d) In contracts that do not require submission of cost or pricing data, the CO should obtain adequate information to establish the base level from which an adjustment may be made and may require verification of data submitted.

d. *Firm Fixed-Price, Level-of-Effort.*

(1) Description:

(a) Requires a contractor to provide a specified level of effort, over a stated period of time, for work that can be stated only in general terms, and the FAA pays the contractor a fixed dollar amount.

(b) Suitable for investigation or study in a specific research and development area. The output of the contract is usually a report showing the results achieved through application of the required level of effort.

(2) Use When:

(a) The work required cannot otherwise be clearly defined.

(b) The required level of effort is identified and agreed upon in advance.

(3) Considerations:

(a) There is reasonable assurance that the intended result cannot be achieved by expending less than the stipulated effort.

(b) Payment is based on the effort expended rather than the results achieved.

e. *Fixed-Price Incentive*.

(1) Description:

(a) Provides for adjusting profit and establishing the final contract price by application of a formula based on the relationship of total final negotiated cost to total target cost.

(b) The final price is subject to a price ceiling, negotiated at the outset. The two forms of fixed-price incentive contracts are firm target and successive targets.

(2) Use When:

(a) A firm-fixed price is not suitable.

(b) The nature of the supplies or services being acquired and other circumstances of the acquisition are such that the contractor's assumption of a degree of cost responsibility will provide a positive profit incentive for effective cost control and performance.

(c) The performance requirements provide a reasonable opportunity for the incentives to have a meaningful impact on the contractor's management of the work, if the contract also includes incentives on technical performance and/or delivery.

(d) Billing prices are established as an interim basis for payment. These billing prices may be adjusted, within the ceiling limits, upon request of either party to the contract, when it becomes apparent that the final negotiated cost will be substantially different from the target cost.

(3) Considerations:

(a) Places maximum risk upon the contractor and full responsibility for all costs and resulting profit or loss with maximum incentive to control costs and perform effectively.

(b) The final price is subject to a price ceiling, negotiated at the outset. See guidance on Firm Target and Successive Target contracts for additional considerations.

f. *Fixed-Price Incentive (Firm Target)*.

(1) Description:

(a) Specifies a target cost, a target profit, a price ceiling (but not a profit ceiling or floor), and a profit adjustment formula. These elements are negotiated at the outset.

(b) Price ceiling is the maximum that may be paid to the contractor, except for any adjustment under other contract clauses.

(c) When performance is completed, the parties negotiate the final cost, and the final price is established by applying the formula.

(2) Use When:

(a) The contractor's accounting system is adequate for providing data to support negotiation of final cost and incentive price revision.

(b) Adequate cost or pricing information for establishing reasonable firm targets is available at the time of initial contract negotiation.

(3) Considerations:

(a) Profit varies inversely with the cost; therefore this contract type provides a positive, calculable profit incentive for the contractor to control costs.

(b) If the final negotiated cost exceeds the price ceiling, the contractor absorbs the difference as a loss.

(c) The CO should specify in the contract schedule the target cost, target profit, and target price for each item subject to incentive price revision.

g. *Fixed-Price Incentive (Successive Targets)*.

(1) Description:

(a) Specifies the following elements, all of which are negotiated at the outset:

(i) Initial target cost;

(ii) Initial target profit;

(iii) Initial profit adjustment formula;

(iv) The production point; and

(v) A ceiling price.

(b) The profit adjustment formula to be used for establishing the firm target profit includes a ceiling and floor for the firm target profit.

(2) Use When:

(a) Available cost or pricing information is not sufficient to permit the negotiation of a realistic firm target cost and profit before award.

(b) Sufficient information is available to permit negotiation of initial targets.

(c) There is reasonable assurance that additional reliable information will be available at an early point in the contract performance so as to permit negotiation of either a firm-fixed price or firm targets and a formula for establishing final profit and price that will provide a fair and reasonable incentive.

(d) The contractor's accounting system is adequate for providing data for negotiating firm targets and a realistic profit adjustment formula, and negotiation of final costs.

(e) Cost or pricing information adequate for establishing a reasonable firm target cost is reasonably expected to be available at an early point in contract performance.

(3) Considerations:

(a) Initial profit adjustment formula normally provides for a lesser degree of contractor cost responsibility than would a formula for establishing final profit and price.

(b) A ceiling price is the maximum that may be paid to the contractor, except for any adjustment under other contract clauses.

(c) When the specified production point is reached, the parties negotiate the firm target cost giving consideration to cost experience under the contract and other pertinent factors. The firm target profit is established by the stated formula. The parties may then negotiate a firm-fixed price, using the firm target cost plus the firm target profit as a guide; **OR** negotiate a formula for establishing the final price using the firm target cost and firm target profit. The final cost is then negotiated at completion, and the final profit is established by the formula, as under the fixed-price (firm target) contract.

h. *Fixed-Price Award Fee.*

(1) Description:

- (a) Provides for a price not subject to any adjustment on the basis of the contractor's actual costs in performing the contract and for a fee consisting of an award amount that the contractor may earn in whole, in part, or not at all during performance.
- (b) Award fee is sufficient to provide motivation for excellence in such areas as quality, timeliness, etc.
- (c) The amount of the award fee to be paid is determined by the FAA's judgmental evaluation of the contractor's performance in terms of the discriminators stated in the contract. This determination is made unilaterally by the FAA and is not subject to the "Disputes" clause.

(2) Use When:

- (a) The work can be sufficiently defined to permit the use of a fixed-price contract and the CO believes the FAA can benefit by providing added incentives to encourage the contractor to perform beyond the minimum contract requirements.
- (b) The additional administrative effort and cost required to monitor and evaluate performance are justified by the expected benefits.
- (c) Multiple offices or functions may be support by the contract.

(3) Considerations

- (a) Probable profit included in the fixed price when establishing the award fee.
- (b) Contract contains an award fee determination plan which discusses the method the FAA will use to determine how much of the award fee may be paid to the contractor. The following topics are recommended:
 - (i) Performance discriminators (describes the specific areas of performance to be evaluated, and the weighting given to each area).
 - (ii) Frequency of evaluations, total award fee, and amount of fee allocated per performance evaluation period.
 - (iii) Process for making changes to the plan.

(iv) Termination (describes how the final period of evaluation will be treated should the contract be terminated).

3 Cost-Reimbursement Revised ~~10/2019~~ 9/2021

- a. *General.* Cost-reimbursement type contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the required work and establish a ceiling that the contractor may not exceed (except at its own risk) without the CO's approval. Cost-reimbursement contracts are appropriate when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract.

The CO must notify FAA Cost/Price Analysis Services (AAP-500) when awarding all cost reimbursable contracts. This requirement includes task orders and contracts with reimbursable CLINs over 15% of the total contract value for the purposes of maintaining a list of contracts required by AMS Policy to be audited.

b. *Cost.*

(1) Description:

A cost-reimbursement contract in which the contractor receives no fee.

(2) Use When:

- (a) Research and development work, particularly with nonprofit educational institutions or other nonprofit organizations, and for facilities contracts.
- (b) The contractor's accounting system is adequate for determining costs applicable to the contract.
- (c) The uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use a fixed price contract.
- (d) The total value of the contract is high enough to justify the higher administrative costs when compared to other contract types.

(3) Considerations:

- (a) Appropriate FAA surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used.
- (b) Verifiable cost information is available.

(c) A ceiling price which the contractor may not exceed without the CO's approval.

(d) Allowable costs are determined according to FAA Cost

Principles. c. *Cost-Sharing*.

(1) Description:

A cost-reimbursement contract in which the contractor receives no fee and is reimbursed only for an agreed-upon share of its allowable costs.

(2) Use When:

(a) The contractor agrees to absorb a portion of the costs with the expectation of compensating benefits.

(b) The contractor's accounting system is adequate for determining costs applicable to the contract.

(c) The uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use a fixed price contract.

(d) The total value of the contract is high enough to justify the higher administrative costs when compared to other contract types.

(3) Considerations:

(a) Appropriate FAA surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used.

(b) Verifiable cost information is available.

(c) A ceiling price which the contractor may not exceed without the CO's approval.

(d) Allowable costs are determined according to FAA Cost

Principles. d. *Cost-Plus-Fixed Fee*.

(1) Description:

(a) Provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. The fee is a fixed dollar amount.

(b) For CPFF LOE contract, the fee is determined by the level of effort performed. The fixed fee may vary by a pre-determined amount or percentage of the total fixed fee available based on the level of effort, but not cost incurred.

(c) The fixed fee does not vary with actual cost, but may be adjusted as a result of changes in the scope of work to be performed under the contract.

(d) If the contract is incrementally funded, the CO should identify in all awards and modifications the portion of funding allocated to the fee.

(e) Typically written in either completion form or term form.

(f) Permits contracting for efforts that might otherwise present too great a risk to contractors, but it provides the contractor only a minimum incentive to control costs.

(2) Use When:

(a) The uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use a fixed-price contract.

(b) The total value of the contract is high enough to justify the higher administrative costs when compared to another contract type.

(c) The contractor's accounting system is adequate for determining costs applicable to the contract.

(d) The level of effort required is unknown such as for the performance of research or preliminary exploration or study.

(e) The extra incentive of a cost plus award fee is not necessary, but payment of profit is still appropriate.

(3) Considerations:

(a) A contract ceiling price is established at award and the contractor may not exceed the ceiling without the CO's written approval.

(b) Costs are determined according to FAA Cost Principles.

(c) Contractor's accounting system is adequate for determining costs applicable to the contract.

(d) A Contractor may invoice the fee as a percentage of costs incurred, rather than a fixed dollar amount per invoice subject to the total Fixed Fee amount. If a Contractor invoices as a percentage of costs, the CO and COR must closely monitor the payment of

fee and ensure compliance with AMS Clause 3.2.4-6 Fixed Fee and its require fee withholding. The Contractor fee may be released for payment once all deliverables have been received and accepted by the COR.

(e) Fixed fee payments may also be structured subject to contract terms and conditions such as milestone payments. A percentage or amount of the total fixed fee is paid upon completion of specified milestones.

(f) Cost plus fixed fee does not provide fee incentives for superior performance.

(g) Generally less costly to administer from an administrative standpoint than cost plus award fee.

(h) May be completion or term. Completion form is preferred because of the differences in obligation assumed by the contractor. This forms states a definite goal or target and specifies an end product. If the work cannot be completed within the estimated cost, FAA may require more effort and increase the estimated cost but without an increase in fee.

(i) If term is used the contract should provide a specific level of effort within a definite time period. If FAA considers performance satisfactory, the fixed fee is payable at the expiration of the agreed upon period.

(j) For multiple award contracts, the CO should make a determination about splitting the potential work under the contract vehicle to determine the share of fixed fee. This type of award is not recommended for multiple award contracts as it is difficult to determine which work will go to which Contractor in advance.

e. Cost-Plus-Incentive Fee.

(1) Description:

(a) Provides for the initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs.

(b) Specifies a target cost, target fee, minimum and maximum fees, and a fee adjustment formula.

(c) After contract performance, the fee payable to the contractor is determined in accordance with the formula.

(2) Use When:

(a) A cost-reimbursement contract is necessary and a target cost and fee adjustment formula can be negotiated that are likely to motivate the contractor to manage effectively.

(b) Development and test programs are required.

(c) Technical performance incentives may be included and it is highly probable that the required development of a major system is feasible and FAA has established its performance objectives, at least in general terms.

(3) Considerations:

(a) The fee adjustment formula provides, within limits, for increases in fee above target fee when total allowable costs are less than target costs and decreases in fee below target fee when total allowable costs exceed target costs.

(b) The increase or decrease is intended to provide an incentive for the contractor to manage the contract effectively.

(c) When total allowable cost is greater than or less than the range of costs within which the fee-adjustment formula operates, the contractor is paid total allowable costs, plus the minimum or maximum fee.

(d) The fee adjustment formula should provide an incentive that will be effective over the full range of reasonably foreseeable variations from target cost.

(e) If a high maximum fee is negotiated, the contract must also provide for a low minimum fee that may be a zero fee or, in rare cases, a negative fee.

(f) Costs are determined according to FAA Cost Principles.

(g) Contractor's accounting system is adequate for determining costs applicable to the contract.

f. *Cost-Plus-Award Fee*.

(1) Description:

(a) Provides for a fee consisting of:

- (i) a base amount fixed at inception of the contract;
- (ii) an award amount that the contractor may earn in whole or in part during performance and that is sufficient to motivate excellent performance; and

(iii) a performance evaluation plan that specifies the criteria for determining the award fee to be paid. Additional detailed guidance on developing a performance evaluation plan, measurable award fee criteria, calculating award fee, and other basic guidelines about administering cost-plus-award-fee contracts are in ~~Appendices D-2 and D-3~~ Appendix G1 of this Section.

(b) The amount of the award fee to be paid is based on FAA's judgmental evaluation of the contractor's performance. This determination is made unilaterally by FAA and is not subject to the "Disputes" clause.

(2) Use When:

(a) The uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use a fixed-price contract.

(b) The total value of the contract is high enough to justify the higher administrative costs when compared to another contract type.

(c) The contractor's accounting system is adequate for determining costs.

(d) The work to be performed is such that it is neither feasible nor effective to devise predetermined objective incentive targets applicable to cost, technical performance, or schedule.

(e) The likelihood of meeting acquisition objectives will be enhanced by using a contract that effectively motivates the contractor toward exceptional performance and provides FAA with the flexibility to evaluate both actual performance and the condition under which it was achieved.

(3) Considerations:

(a) The CO should weigh the cost of higher contract administration costs against the expected benefit of selecting a cost-plus-award-fee contract.

(b) A ceiling price which the contractor may not exceed without the CO's approval is included.

(c) Costs are determined according to FAA Cost Principles.

(d) The CO must develop measurable award fee criteria to evaluate contractor performance. The CO evaluation must contain narrative comments as the bases for judging contractor performance, identifying specific contractor strengths, weaknesses and deficiencies.

(e) Contract contains an award fee determination plan which discusses the method FAA will use to determine how much the award fee will be paid.

(f) General topics of an award fee plan:

(i) Performance discriminators must be clearly described as these are the bases for grading and scoring methods used to translate evaluation findings into recommended award fee amounts or ranges.

(ii) Frequency of evaluations, total award fee, and amount of fee allocated per performance evaluation period.

(iii) Process for making changes to the plan.

(iv) Termination (describes how the final period of evaluation will be treated should the contract be terminated).

(g) Number of evaluation criteria and the requirements they represent may differ widely among contracts. The criteria and rating plan should motivate the contractor to improve performance in the areas rated, but not at the expense of a least minimum acceptable performance in all other areas.

(h) Provide for evaluation at stated intervals during performance, so that the contractor is periodically informed of the quality of its performance.

(i) Partial payment of fee should generally correspond to the evaluation periods.

g. Cost-Plus-Percentage of Cost.

Description: Provides for reimbursement of cost plus an agreed upon percentage of incurred cost as fee. The amount of fee increases as cost increases. This type of contract rewards inefficient and ineffective performance, or failure to control cost, with higher amounts of fee.

THIS CONTRACT TYPE IS PROHIBITED.

4 Incentive Contracts Revised 7/2009

a. General.

(1) Incentive contracts are designed to obtain specific program objectives by establishing reasonable and attainable targets clearly communicated to the contractor, and by establishing incentives to motivate contractor performance and discourage inefficiency. The basic categories of incentive contracts are fixed-price incentive and cost-reimbursement incentive. Award-fee contracts are also a type of incentive contract.

(2) When predetermined, formula-type incentives on technical performance or delivery are included in a contract, increases in profit or fee are provided only for contractor achievement surpassing the targets, and decreases are provided for to the extent that such targets are not met. The incentive increases or decreases are applied to performance targets rather than minimum performance requirements.

b. *Cost Incentives.*

(1) Most incentive contracts include only cost incentives, which take the form of a profit or fee adjustment formula and are intended to motivate the contractor to effectively manage costs. No incentive contract should provide for other incentives without also providing a cost incentive (or constraint).

(2) Excluding cost-plus-award-fee contracts, incentive contracts include a target cost, a target profit or fee, and a profit or fee adjustment formula that (within the constraints of a price ceiling or minimum and maximum fee) provides:

(a) Actual cost that meets the target will result in the target profit or fee;

(b) Actual cost that exceeds the target will result in downward adjustment of target profit or fee; and

(c) Actual cost that is below the target will result in upward adjustment of target profit or fee.

c. *Performance Incentives.*

(1) Performance incentives may be considered for specific product characteristics (*e.g.*, range, speed, maneuverability) or other specific elements of the contractor's performance. These incentives should relate profit or fee to results achieved by the contractor, compared with specified targets.

(2) To the extent practicable, positive and negative performance incentives should be considered for service contracts involving objectively measurable tasks when quality of performance is critical and incentives are likely to motivate the contractor.

(3) Technical performance incentives may involve a variety of specific characteristics that contribute to the overall performance of the end item. The incentives on individual technical characteristics should be balanced so that no one of them is exaggerated to the detriment of the overall performance of the end item.

(4) Performance tests and/or assessments of work performance are generally essential in order to determine the degree of attainment of performance targets. The contract should be as specific as possible in establishing test criteria (such as testing conditions,

instrumentation precision, and data interpretation) and performance standards (such as the quality levels of services to be provided).

(5) Because performance incentives present complex problems in contract administration, the CO should negotiate incentives in full coordination with Government engineering and pricing specialists.

(6) It is essential that the Government and contractor agree explicitly on the effect that contract changes (e.g., pursuant to the Changes clause) will have on performance incentives.

(7) The CO must exercise care, in establishing performance criteria, to recognize that the contractor should not be rewarded or penalized for attainments of Government-furnished components.

d. *Delivery Incentives.*

(1) Delivery incentives should be considered when improvement from a required delivery schedule is a significant Government objective. It is important to determine the Government's primary objectives in a given contract (e.g., earliest possible delivery or earliest quantity production).

(2) Incentive arrangements on delivery should specify the application of the reward-penalty structure in the event of Government-caused delays or other delays beyond the control, and without the fault or negligence, of the contractor or subcontractor.

e. *Structuring Multiple-Incentive Contracts.* A multiple-incentive arrangement should:

(1) Motivate the contractor to strive for outstanding results in all incentive areas; and

(2) Compel trade-off decisions among the incentive areas, consistent with the Government's overall objectives for the acquisition. Because of the interdependency of the Government's cost, the technical performance, and the delivery goals, a contract that emphasizes only one of the goals may jeopardize control over the others. Because outstanding results may not be attainable for each of the incentive areas, all multiple-incentive contracts must include a cost incentive (or constraint) that operates to preclude rewarding a contractor for superior technical performance or delivery results when the cost of those results outweighs their value to the Government.

f. *Checklist for Incentive Contracts.*

Pre-award:

- Was a review of incentive fee contracting at AMS Procurement Guidance T3.2.4.A.4 a.-

- e. completed?
- Is it likely the incentive affects cost, schedules or quality in a positive way?
- Are there potential unintended negative consequences in the incentive on costs, schedules or quality?
- Is the incentive challenging and attainable?
- Is the incentive affordable for FAA?
- Are resources available to properly formulate and monitor the contract?
- Can risks and cost benefits be assessed?
- Can incentives be objectively measurable?
- Do incentives correlate to the desired results?
- What form should the incentive take?
- Was there market research and open communications with vendors in developing the incentive?
- Are there evaluation factors related to the incentive?
- Are multiple incentives (i.e., combination of cost, performance/delivery, or quality incentives) appropriate?
- Does the incentive fee plan provide clear direction on how the incentive fee will be applied and monitored?
- What is appropriate contract type - CPIF or FPI?
- Are there any goals where multiple incentives conflict?
- Does the incentive have the requisite limits?

Post-award:

- Is the incentive effective?
- Do incentive assumptions need to be reassessed?
- Are contractors being rewarded for simply meeting contract requirements?

- Is the incentive focused on the objective?
- How effective are the tools and processes being used to monitor the incentive?
- Is there a need to revise the incentive due to changes in requirements or contract developments?

5 Indefinite Delivery Revised 7/2019

a. *General.* There are three types of indefinite delivery contracts: definite quantity; requirements; and indefinite-quantity. An indefinite delivery contract permits flexibility in both quantity and delivery time, and in ordering products or services after requirements materialize. These contract types are appropriate when the exact times or exact quantities of future deliveries are not known at the time of contract award, and FAA wants a firm commitment from the contractor to accept all orders placed in accordance with the contract terms. Other considerations for indefinite delivery contracts include:

- (1) Contracts may provide for any appropriate cost or pricing arrangement.
- (2) Cost or pricing arrangements that provide for an estimated quantity of supplies or services (e.g., estimated number of labor hours) must comply with the appropriate cost and pricing procedures.
- (3) Prices remain fixed for the duration of the contract unless specific provisions are included for price adjustments.
- (4) A separate public announcement is not required for orders placed under a requirements or indefinite quantity contract.
- (5) Contract schedule should include the names of organizations authorized to issue orders.
- (6) The contract may include provisions for placing oral, electronic, or facsimile orders. Funds should be properly obligated and oral orders confirmed in writing.
- (7) When determining which contract, cost and pricing arrangements to include, all justifications and approvals for such arrangements must be made and obtained prior to entering into the indefinite delivery contract.
- (8) The contract may include program management task orders. The determination to award program management task orders will be made on a case-by-case basis and driven by program requirements, scope, complexity, dollar value, and risk. Some factors that the program office may consider in its decision to award program management task orders include the following:
 - Major stakeholder visibility.

- Complexity of the procurement scope and impact on the program's mission.
- Overarching program oversight of individual projects/task orders.
- Centralized coordination with vendors in managing the overall technical requirements, performance monitoring, and status reporting across the program.

b. *Definite Quantity.*

(1) Description:

Provides for delivery of a definite quantity of specific supplies or services for a fixed period, with deliveries or performance to be scheduled at designated locations upon order.

(2) Use When:

(a) FAA can determine in advance that a definite quantity of supplies or services will be required during the contract period and the supplies or services are regularly available or will be available after a short lead-time.

(b) The FAA's total requirements are known but the delivery schedule or locations are not known in advance.

(3) Considerations:

(a) Limits FAA's and the contractor's obligation to the quantity specified in the contract.

(b) May also contain provisions to order option quantities.

c. *Indefinite Quantity.*

(1) Description:

(a) Limits FAA's obligation to the minimum quantity specified in the contract.

(b) Provides for delivery of an indefinite quantity within stated limits, of specific products or services during a fixed period; with deliveries to be scheduled by placing orders with the contractor.

(c) Also known as a delivery order contract.

(2) Use When:

(a) The FAA cannot predetermine, above a specified minimum, the precise quantities of supplies or services that will be required during the contract period.

(b) The FAA does not wish to commit itself for more than a minimum quantity.

(c) A recurring need is anticipated.

(d) Funds for other than the stated minimum quantity are obligated by each delivery order, and not by the contract itself.

(3) Considerations:

(a) The schedule of items should include a realistic estimate of total orders to be placed during the contract term.

(b) Contract may include a maximum or minimum quantity that FAA may order under delivery order and the maximum that it may order during a specific period of time.

(c) The contract should contain a minimum quantity of supplies or services that the contractor may be required to deliver, if ordered. The minimum quantity should be more than nominal but should not exceed the amount that FAA is fairly certain to order.

(d) Making multiple awards may be beneficial. In making this determination, the CO should exercise sound business judgment as part of acquisition planning. The administrative cost of multiple contracts may outweigh any potential benefits.

(e) If multiple awards are anticipated, include a notice to offerors.

d. *Requirements Contract.*

(1) Description:

(a) Provides for filling all actual product or service requirements of designated government activities during a specified period with delivery or performance scheduled by placing orders with the contractor.

(b) Funds are obligated by each delivery order, not by the contract itself.

(c) Also known as a delivery order contract.

(2) Use When

(a) The FAA anticipates recurring requirements but cannot predetermine the precise quantities of products or services that designated FAA activities will need during a definite period.

(b) The contract states a realistic estimated total quantity.

(c) The estimate is based on the most current information available, such as previous requirements or consumption.

(3) Considerations:

(a) Estimated requirements are not a representation to an offeror or contractor that the estimated quantity will be ordered, or that conditions affecting requirements will be stable or normal.

(b) Contract may include a maximum limit of the contractor's obligation to deliver and the FAA's obligation to order.

(c) Contract may specify minimum/maximum quantities that the FAA may order under each individual order and the maximum it may order during a specified period of time.

(d) If contract is to acquire work on existing FAA property (e.g., repair, modification or overhaul), the schedule should specify that failure of FAA to furnish such items in the amounts or quantities described in the schedule as 'estimated' or 'maximum' will not entitle the contractor to any equitable adjustment in price under the FAA property clause of the contract.

6 Time-and-Materials / Labor-Hour Revised 7/2017

a. Description:

A time-and-materials (T&M) or labor-hour (LH) contract provides for acquiring supplies or services on the basis of direct labor hours at specified fixed hourly rates. Fixed hourly labor rates include wages, overhead, general and administrative expenses, and profit. A T&M contract also includes provisions for acquiring materials at actual cost (and may include a handling fee).

b. Use When:

A T&M or LH contract may be used when no other contract type is suitable, and it is not possible at the time of award to accurately estimate the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.

c. Considerations:

(1) *Justification.* The CO must document the basis for selecting a T&M or LH contract, including task orders placed against an ordering vehicle. This justification must explain:

(a) Why no other contract type is suitable;

(b) Why it is not possible to accurately estimate the extent or duration of the work or to anticipate costs with any reasonable degree of confidence;

(c) The market research conducted; and

(d) How the requirement has been structured to best allow for another contract type with less risk (such as fixed-price) to FAA in future procurements. This may include transitioning individual line items to fixed-price (for example, materials), while keeping other line items as T&M (for example, installation services).

(2) *Approval of Long Term Contracts.* The Chief of the Contracting Office must approve any T&M or LH contract with a total performance period of more than five years (base period plus options, or contracts extended by modification). The CO documents the basis for the performance period, includes this information in the T&M or LH justification required by paragraph c. (1) above, and sends to the justification to the COCO for approval. Non-T&M or LH contracts that have T&M or LH line items that are 15% of the contract price or less do not need COCO approval.

(3) *Ceiling.* T&M or LH contracts must include a ceiling price established at the time of contract award. There must be a documented relationship between the ceiling price established at the time of award and the amount of work expected to be performed. The CO must justify and document consistent with AMS Single-Source Selection Policy any ceiling price increase. As part of this justification and documentation, the CO must conduct an analysis of pricing and other relevant factors to determine if the ceiling increase is in the FAA's best interests. The CO also should consider if effort in excess of the ceiling price, where appropriate, should be completed using a fixed-price contract modification.

(4) *Labor Categories.* T&M or LH contracts should establish only those labor categories necessary for the required work. The program official and CO must jointly document the basis for selecting labor categories to be used. The contract should specify any minimum education, experience, and other qualifications required for each labor category.

(5) *Hourly Rates.* T&M or LH contracts must specify for each labor category, separate fixed hourly rates that include wages, overhead, general and administrative expense, and profit. For noncompetitive awards, the contract must specify fixed hourly rates for each labor category, whether performed by contractor personnel, subcontractor personnel, or employees of a division, subsidiary, or affiliate of the contractor under a common control.

(6) *Material Costs.*

(a) Materials are:

(1) Direct materials: Those materials that enter directly into the end product or are consumed in connection with the furnishing of the end product or service;

(2) Subcontracts: For supplies or incidental services for which there is not a labor category in the contract;

(3) Other direct costs: Includes incidental services for which there is not a labor category in the contract, travel, and computer usage charges; and

(4) Applicable indirect costs.

(b) Material costs are compensable only if the contract provides for such costs.

(c) When included as part of material costs, material handling costs (or fees) must include only costs excluded from the labor-hour rate. These costs may include all appropriate indirect costs allocated to direct materials in accordance with the contractor's usual accounting procedures.

(7) *Monitoring.* T&M or LH contracts provide limited incentive for a contractor to control costs or efficiently use labor. FAA personnel must closely monitor a contractor's performance to ensure efficient work methods and adequate cost controls are in place. Methods of monitoring generally relate to the dollar value and risk associated with the contract, and may include:

(a) *Random Sampling.* Random sampling is a statistically based method that assumes receipt of acceptable performance if a given percentage or number of scheduled assessments is found to be acceptable;

(b) *100% Inspection.* This surveillance/assessment type is preferred for those tasks that occur infrequently; including tasks that cannot be random sampled because the sample size for a small lot may exceed the lot size;

(c) *Periodic Surveillance.* Periodic sampling is similar to random sampling, but it is planned at specific intervals or dates; or

(d) *Customer Feedback.* Customer feedback is firsthand information from the actual users of the service.

7 Letter and Ceiling Priced Contracts Revised 4/20219/2021

a. *General.* A letter contract is a preliminary contractual instrument that authorizes a contractor to immediately begin performance, subject to negotiating a definitive contract. A ceiling priced contract authorizes a contractor to start performance before final agreement on contract price. When issuing a letter contract, the CO must use the Letter Contract template located in Procurement Templates.

b. *Letter Contract.*

(1) Description:

- (a) Provides a preliminary authorization for the contractor to immediately begin work.
- (b) Includes a brief description of the work, performance period, and a limitation on the total funding amount that a contractor may expend and FAA will pay.
- (c) Includes a negotiated definitization schedule. The definitization schedule will include dates for submission of the contractor's price proposal, required certified cost or pricing data or other than certified cost and pricing data and, if required, subcontracting plans; a date for the start of negotiations; and a target date for definitization. Definitization should occur within 180 days after the date of the ceiling-priced/letter contract or before completion of 40% of the work to be performed, whichever occurs first. When appropriate, extensions beyond 180 days or 40% completion of the work to be performed may be made upon the demonstrated need due to emergency. Such extensions must be approved by the applicable division manager or AAQ-1.
- (d) Contractor agrees to be bound by the AMS termination, changes and disputes provisions.

(2) Use When:

- (a) The FAA's interests demand that the contractor be given a binding commitment so that work can start immediately and negotiating a definitive contract is not possible in sufficient time to meet the requirement.
- (b) Emergency or other special situations for limited amounts.

(3) Considerations:

- (a) A letter contract should not be used for contract modifications.
- (b) Should not be used to commit the FAA to a definitive contract in excess of the funds available at the time the letter contract is executed.
- (c) Should not be amended to satisfy a new requirement unless that requirement is inseparable from the existing letter contract. Any such amendment is subject to the same requirements and limitations as a new letter contract.

c. Ceiling Priced Contract.

(1) Description:

(a) A written contractual instrument that contains all required AMS provisions, except for final agreement on contract price or cost.

(b) Contains all requirements for performance or delivery. (2) Use

When:

(a) The FAA's interests demand that the contractor be given a binding commitment so that work can start immediately and negotiating a definitive contract price or cost is not possible in sufficient time to meet the requirement.

(b) The ceiling priced contract contains the maximum price or cost to be negotiated; the contract type for the definitized contract; FAA's maximum liability pending definitization; a definitization schedule; and a provision which permits the CO to determine a reasonable price or cost (subject to the disputes provisions).

(3) Considerations:

(a) Use of a ceiling-priced contract for a cost-reimbursement contract should not be construed to alter the obligation of the parties to complete performance of the cost type contract.

(b) Each ceiling priced contract must include a negotiated definitization schedule. The definitization schedule should include dates for submission of the contractor's price proposal, required cost or pricing data and, if required, make-or-buy and subcontracting plans; a date for the start of negotiations; and a target date for definitization.

(c) The definitization schedule should provide for definitization of the contract within 180 days after the date of the ceiling-priced contract or before completion of 40% of the work to be performed, whichever occurs first.

8 Multi-year Contracting Revised 7/2007

a. *Description.* Multi-year contracting is a special method of acquiring known requirements for supplies or services for up to five program years, without total program funding at the time of basic contract award. Funds are obligated only for the first program year's requirements. Contract performance after the first year is contingent on appropriations for each subsequent program year. If appropriations are not made, then FAA must cancel the contract and the contract may provide for a cancellation payment to the contractor. Multi-year contracts differ from multiple year contracts in that multi-year contracts obtain more than one year's requirement without establishing and having to exercise an option for each program year after the first.

b. *Multi-year Authority.* Specific legal authority authorizes or restricts FAA's use of multi-year contracts. Before planning a multi-year contract, the CO must obtain legal counsel's concurrence.

c. *Benefits.* Advantages of using multi-year provisions include to:

- (1) Lower costs;
- (2) Enhance standardization;
- (3) Reduce administrative burden associated with contract award and administration;
- (4) Ensure substantial continuity of production or performance, to avoid annual startup costs, pre-production testing costs, make-ready expenses, and phase-out costs;
- (5) Stabilize contractor workforces;
- (6) Avoid establishing quality control techniques and procedures for a new contractor each year;
- (7) Broaden the competitive base, with opportunity for participation by contractors not otherwise willing or able to compete for lesser quantities, particularly in cases involving high startup costs; and
- (8) Provide incentives to contractors to improve productivity through investment in capital facilities, equipment, and advanced technology.

d. *Considerations.* When deciding whether to use multi-year provisions, the CO should consider:

- (1) There will be a continuing requirement consistent with current plans for the proposed contract period. The minimum need for the item to be purchased is expected to remain substantially unchanged during the proposed contract period in terms of production rate, acquisition rate, and total quantities;
- (2) The contract will require a substantial initial investment in plant or equipment, or there will be a substantial contingent liability for assembling, training, or transporting a specialized workforce;
- (3) The contract will encourage competition and promote economies in operation;
- (4) The contract will promote safety or efficiency of the National Airspace System and will result in reduced total costs;
- (5) There is reasonable expectation that throughout the contemplated contract period FAA will request funding for the contract at the level required to avoid contract cancellation;

(6) There is a stable design for the item to be acquired and the technical risks associated with such item are not excessive; and

(7) There are realistic estimates of both cost of the contract and anticipated cost avoidance through the use of multi-year provisions.

e. *Services.* Fixed-price and fixed-price incentive contracts for the following services, and supplies related to those services, may be acquired using multi-year provisions:

(1) Operation, maintenance, and support of facilities and installations;

(2) Operation, maintenance, and modification of aircraft, vehicles, and other highly complex equipment;

(3) Specialized training requiring high quality instructor skills, including training of pilots and aircrew members and foreign language training; and

(4) Base services, including ground maintenance, aircraft refueling, bus transportation, and refuse collection and disposal.

f. Multi-year provisions should not be used to acquire construction or real property.

g. *Soliciting Offers and Pricing*

(1) The CO may solicit separate offers for the current one-year program requirements alone and for the total multi-year program requirements. Separate offers allow the CO to determine which alternative provides the lowest unit price and whether there are potential savings from using multi-year provisions. When in FAA's best interest, the CO may solicit offers for the total multi-year requirements only.

(2) Multi-year contracts allow certain costs to be amortized over the entire contract quantity, resulting in identical (level) unit prices for all items or services. When level unit pricing is not in FAA's best interest, the CO may use variable unit pricing, provided that for competitive proposals there is a valid method of evaluation.

(3) Given the longer period of performance for a multi-year contract, the CO should consider risk when negotiating a profit or fee objectives and should consider financing arrangements that reflect contractor's cash flow needs.

h. *Cancellation.* If a multi-year contract is canceled, FAA should fairly compensate a contractor for the work done and for preparations made for the canceled portion of the contract. The specific dollar amount of "fair compensation" is only determined if the contract is actually canceled. The contractor submits a cancellation claim, the CO evaluates it, and the parties negotiate the "fair compensation," called the cancellation charge, which FAA will pay to the contractor. A cancellation charge is the

amount of unrecovered costs that would have been recouped through amortization over the full term of the contract, including the term canceled. The cancellation ceiling is the maximum cancellation charge that the contractor can receive in the event of cancellation. For each point in time when the FAA could cancel the contract, there is a unique cancellation ceiling.

- (1) Whether, or to what extent, cancellation provisions are included in multi-year contract depends on the circumstances. The CO may use modified cancellation provisions or exclude cancellation provisions when appropriate.
- (2) If cancellation occurs, the contractor is entitled to payment in accordance with contract terms and conditions. The terms of cancellation should outline cancellation procedures, cancellation points in time, the way in which cancellation will be funded, types of costs to be included in the cancellation charge, and cancellation ceiling.
- (3) Cancellation charges need not be funded before cancellation. The CO should determine whether to fund the cancellation ceiling or treat it as a contingent (unfunded) liability.
- (4) All program years except the first are subject to cancellation. Each subsequent program year has a cancellation ceiling. Cancellation ceilings should exclude amounts for items included in prior program years. The cancellation ceiling for each program year is reduced in direct proportion to the remaining requirements subject to cancellation.
- (5) Multi-year contracts may allow reimbursement of unrecovered non-recurring costs included in the price of canceled items to protect the contractor against loss resulting from cancellation.
- (6) In determining cancellation ceilings, the CO should estimate reasonable pre- production or startup, labor learning, and other non-recurring costs to be incurred by an 'average' prime contractor or subcontractor, which would be applicable to, and which normally would be amortized over, the items or services to be furnished under the multi- year requirements. Non-recurring costs include such costs, where applicable, as plant or equipment relocation or rearrangement, special tooling and special test equipment, pre- production engineering, initial rework, initial spoilage, pilot runs, allocable portions of the costs of facilities to be acquired or established for the conduct of the work, costs incurred for the assembly training and transportation of a specialized workforce to and from the job site, and unrealized labor learning. Costs should not include any costs of labor or materials, or other expenses (except as indicated above), which might be incurred for performance of subsequent program year requirements. The total estimate of the above costs must then be compared with the best estimate of the contract cost to arrive at a reasonable percentage or dollar figure. To perform this calculation, the CO should obtain in-house engineering cost estimates identifying the detailed recurring and non-recurring costs, and indicating labor learning implications.

(7) The CO should establish cancellation dates for each program year's requirements regarding production lead time and the date by which funding for these requirements can reasonably be established. The CO should include these dates in the schedule, as appropriate.

1. The CO should limit the FAA's payment obligation to an amount available for contract performance. The CO must insert the amount for the first program year in the contract upon award and modify it for successive program years upon availability of funds. If the contract is terminated for convenience of the FAA in whole, including items subject to cancellation, the FAA's obligation must not exceed the amount specified in the schedule as available for contract performance, plus the cancellation ceiling.

9 Options Revised 10/2020/2021

a. An option is a unilateral contractual right through which FAA may, within a specified time, chose to purchase additional quantities of supplies or services or extend the term of a contract. Options can be an effective method of managing risk, reducing administrative costs of resoliciting for recurring requirements, and motivating contractor's performance. Options do not guarantee contractors that FAA will acquire more than the basic contract quantity or extend the period of performance.

b. Options may be stated as increased quantities of supplies or services, or may be expressed in terms of:

- (1) Percentage of specific contract line items.
- (2) Increase in specific contract line items.
- (3) Additional numbered line items.
- (4) Extensions to the term of the contract.

c. *Services.* Generally, contracts with options for recurring services should be limited to five years. Contracts subject to the Service Contract Labor Standards cannot exceed five years, including options.

d. *Evaluation of Option/Exercise at Award.* The solicitation must state whether the CO will evaluate offers inclusive or exclusive of options and, if applicable, state whether options will be exercised at the time of award. If the CO may exercise an option at award, the solicitation must specify the price at which FAA will evaluate the option (highest option price offered or option price for specified requirements).

e. *Price Limitation.* A solicitation may allow options to be offered without or with price limitation. Solicitations may require options to be offered at prices no higher than those for the initial requirement. Solicitations that limit option prices should specify that FAA will accept an offer

containing an option price higher than the basic price only if the acceptance does not prejudice any other offeror.

f. *Priced Options*. Priced options contain specific option pricing and, if applicable, an appropriate economic price adjustment index. Priced options give FAA a unilateral right to purchase additional quantities or extend a contract period at pre-agreed prices and terms. Priced options are appropriate when the market is relatively stable, price inflation is fairly predictable, the nature of the requirement is not likely to change significantly between award and the time the option is exercised, or when it may be difficult to test the market at a future date.

g. *Unpriced Options*. For unpriced options, the terms and conditions are agreed to at the time of basic contract award but option prices are not agreed to until exercise. Unpriced options may include a not-to-exceed amount established at the time of basic contract award (otherwise exercise of the option requires single source justification). Unpriced options may be bilaterally exercised after agreement on prices.

h. *Public Announcement*. A public announcement is not required for option exercise.

i. *Option Exercise*. The CO makes a prudent business decision whether to exercise an option. The CO, consulting with the program official, should consider funding availability, option prices, and contractor performance (timeliness and quality) when arriving at this decision. The CO may also consider:

(1) A new solicitation, an informal analysis of prices, or examination of the market would not produce better prices or a more advantageous offer than that offered by the option.

(2) The time between award of the basic contract and option exercise is so short that it indicates the option price is the lowest price obtainable or the more advantageous offer.

j. *Economic Price Adjustment*. For options that include an economic price adjustment, the CO should determine the effect of that adjustment on option prices before exercise.

k. *Notification*. The CO must notify the contractor that FAA is exercising an option using the Notice of Intent to Exercise Option template located in Procurement Templates; options are not self-exercising. When exercising an option, the CO provides written notice to the contractor within the time period specified in the contract. The contract terms may also require the CO to give preliminary notice of intent to exercise an option.

10 Basic Agreement Revised 7/2007

A basic agreement is a written instrument of understanding, negotiated between FAA and a contractor, which contains contract clauses applying to possible future contracts between the parties. During the basic agreement's term, separate future contracts will incorporate by reference or attachment the required and applicable clauses agreed upon in the basic agreement. A basic agreement is not a contract.

a. *Application.* A basic agreement should be used when a substantial number of separate contracts may be awarded to a contractor during a particular period and significant recurring negotiating problems have been experienced with the contractor. Basic agreements may be used with negotiated fixed-price or cost-reimbursement contracts.

b. *Contents.* Basic agreements should contain the clauses required by AMS and other appropriate clauses that the parties agree to include in each contract.

c. *Termination.* Each basic agreement will provide for discontinuing its future applicability upon 30 days written notice by either party. The CO should annually review each basic agreement before the anniversary of its effective date and revised as necessary. Basic agreements may need to be revised before the annual review due to mandatory statutory requirements. A basic agreement may be changed only by modifying the agreement itself and not by a contract incorporating the agreement. Discontinuing or modifying a basic agreement must not affect any prior contract incorporating the basic agreement. COs may obtain and use existing basic agreements of another agency when practical.

d. *Exclusions.* A basic agreement does not cite appropriations or obligate funds, or state or imply any agreement by FAA to place future contracts or orders with the contractor.

e. *Incorporating contract.* Each contract incorporating a basic agreement includes a scope of work and price, delivery, and other appropriate terms applicable to the particular contract. The basic agreement should be incorporated into the contract by specific reference (including reference to each amendment) or by attachment. Clauses pertaining to subjects not covered by the basic agreement, but applicable to the contract being negotiated, should be included in the same manner as if there were no basic agreement.

11 Basic Ordering Agreement Revised 7/2007

A basic ordering agreement is a written instrument of understanding, negotiated between the FAA and a contractor. A basic ordering agreement contains terms and conditions applying to future contracts (orders) between the parties during its term, a description, as specific as practicable, of supplies or services to be provided, and methods for pricing, issuing and delivering future orders under the basic ordering agreement. A basic ordering agreement is not a contract.

a. *Application.* A basic ordering agreement may be used to expedite contracting for uncertain requirements for supplies or services when a substantial number of requirements for the type of supplies or services covered by the agreement are anticipated to be purchased from the contractor but specific items, quantities, and prices are not known at the time the agreement is executed. Under proper circumstances, the use of these procedures can result in economies in ordering parts for equipment support by reducing administrative lead-time, inventory investment and inventory obsolescence due to design changes.

b. *Contents.* Each basic ordering agreement describes the method for determining prices to be paid to the contractor for the supplies or services. It also includes delivery terms and conditions or specifies how they will be determined, dispute provisions, and any special payment provisions. The agreement contains a list of FAA activities authorized to issue orders under the agreement. Each basic ordering agreement specifies the point at which the order becomes a binding contract (e.g., issuance of the order, acceptance of the order in a specified manner, or failure to reject the order within a specified number of days). The agreement also contains a statement that failure to reach agreement on price for any order issued before its price is established will be processed as a dispute under the dispute provisions included in the basic ordering agreement.

c. *Administration.* The CO should annually review each basic ordering agreement before the anniversary of its effective date and revised as necessary. Basic ordering agreements may need to be revised before the annual review due to mandatory statutory requirements. A basic ordering agreement should be changed only by modifying the agreement itself and not by individual orders issued under it. Modifying a basic ordering agreement does not retroactively affect orders previously issued under it.

d. *Issuing Orders.* A CO representing any Government activity listed in a basic ordering agreement may issue orders for supplies or services covered by that agreement. A CO may issue orders under basic ordering agreements on any appropriate contractual instrument that incorporates by reference the provisions of the basic ordering agreement. The CO should neither make any final commitment nor authorize the contractor to begin work on an order under a basic ordering agreement until prices have been established, unless the order establishes a ceiling price limiting FAA's obligation and either:

(1) The basic ordering agreement provides adequate procedures for timely pricing of the order early in its performance period; or

(2) The need for the supplies or services is compelling and unusually urgent. For example, FAA would be seriously injured, financially or otherwise, if the requirement were not met sooner than would be possible if prices were established before the work began. The CO should proceed with pricing as soon as practical. In no event should an entire order be priced retroactively.

B Clauses

[view contract clauses](#)

C Procurement Forms Revised 9/2021

[view procurement forms](#)

D

D Procurement Samples Revised 9/2021

E Procurement Templates Added 9/2021

Document Name

[Notice of Intent to Exercise Option](#)

[Letter Contract](#)

F Procurement Tools and Resources Added 9/2021

G Appendices Revised 7/20089/2021

1 Appendix - Award Fee Revised 4/2021

1. Introduction

This appendix includes additional explanation of award fee. It focuses on award fee under cost-reimbursement contracts, but the general concepts apply to award fee on other types of contracts.

An award fee contract provides a separate amount that a contractor may earn, in whole or in part, based on FAA's periodic evaluations of its performance. Award fee is intended to reward contractor performance, considering both the levels of performance and conditions under which the contractor

achieved those levels. Award fee gives FAA flexibility to judgmentally evaluate contractor performance, and to quickly change evaluation plans to reflect changes in FAA management emphasis or concern.

2. Award Fee Provisions

A cost-plus-award fee contract includes an estimated cost, a base fee, an award fee, and an evaluation and fee payment plan. The contract also includes a clause specifying that award fee determinations are made unilaterally by the designated Fee Determination Official (FDO), according to the approved evaluation plan, and determinations are not subject to appeal under the Disputes clause.

3. Administrative Cost Versus Benefit

Award fee requires added administrative activities. Tailoring an award fee approach avoids an administrative burden disproportionate to any expected improvements in a contractor's performance and overall project management. When deciding whether to use award fee, the Contracting Officer (CO) should consider administrative cost versus expected benefit. Administrative cost includes staff time to monitor, evaluate, document, brief and otherwise implement award fee. Cost drivers include frequency of evaluation periods, and number of people involved in administering award fee. Benefits, which may be intangible and difficult to estimate, could include dollars saved by enhanced technical capability.

4. Fees

The total amount of base fee (if any) and award fee is established at contract award. The sum of base fee and award fee should reflect the overall character, difficulty, and uncertainty of the effort.

Base fee is a fixed amount, similar to fixed fee, that a contractor earns for basic risk of contract performance. Base fee is optional; FAA may decide instead to reward contractor performance solely through award fee. When base fee is used, the amount should be limited so that it does not undermine the effectiveness of award fee. Base fee payments are generally made as part of the regular cost voucher process.

Award fee is a separate amount sufficient enough to reward the contractor for all levels *above* minimally acceptable performance. Actual award fee earned by the contractor is determined by FAA's assessment of performance against criteria included in an evaluation plan. The contractor can earn any amount of available award fee, from none to all. The contractor does not earn any award fee for less than satisfactory performance. Award fee available, but not earned, for an evaluation period is forfeited by the contractor and cannot carry forward to subsequent evaluation periods.

When establishing award fee, the CO may consider weighted guidelines profit/fee analysis factors, such as contractor effort, complexity of the effort, labor and indirect costs, cost risk, and other factors as applicable. Award fee should not be excessive, but should be large enough to adequately motivate contractor performance.

One of the most difficult situations is a hybrid contract, where there might be multiple performance incentives in addition to an award fee. The amounts allocated to each fee area must be sufficient to adequately motivate and reward a contractor to excel in each. There should be a balance in which no fee area is either so insignificant that it offers little reward or so large that it overshadows all other areas. The number of factors being incentivized also plays a part. When too many factors are incentivized, the prospect increases of any one item being too small (and thus overlooked), or the incentives being (or perceived as being) inconsistent and working at cross purposes. Using too many factors can also be confusing and increase the administrative burden.

5. Combination with Other Contract Types

A hybrid contract may be appropriate when certain aspects of a contract performance are best suited to objective measurement and other portions are suited to subjective measurement. For example, an incentive fee might be used for cost control and award fee to reward technical performance. Given the interrelationship between contract costs and the other critical performance elements, the CO should ensure that combinations of objective cost control incentives and subjective/objective award fee determinations do not result in a contractor making trade-off decisions inconsistent with FAA objectives and performance priorities. Poorly structured incentives can result in increased costs with little or no improvement in performance or cost savings with a corresponding loss in performance. No performance element should be incentivized more than once. If a separate incentive is used for cost, then cost control cannot also be rewarded in the award fee. Similarly, performance elements should be carefully structured and defined to avoid overlap, and to preclude downgrading in multiple elements for a single type of poor performance. When using hybrid contracts, financial data must be segregated to allow different cost and fee payments based on each type of contract and to provide specific management information and accountability for the work under the different types of contract. Because of the complexity in structuring and administering a hybrid contract, the CO should be reasonably sure that increased administrative costs will be offset by potential benefit.

6. Organization and Administration

The most effective organizational and administrative approach differs with each situation. The overall objective is to not impose an unreasonable administrative burden, considering the value and complexity of the contract. The following are basic guidelines:

- a. Avoid creating too many organizational layers. Excessive layers contribute to unnecessary paperwork, delays in turnaround time, and inordinate staffing demands.
- b. At the same time, the CO and project manager's assessments should be reviewed by higher level management officials who have a broader perspective and are not involved in the daily interaction with the contractor. Evaluations must be based on contractually required performance.
- c. Tailor performance evaluation plans to the specific situation, but do not reinvent the wheel. The tailored, case-by-case application of successfully used procedures and practices generally works best.

d. The objective is to evaluate performance and not micromanage it. The Government tells the contractor what results are expected and important. It then evaluates and rewards the contractor as appropriate for achieving or exceeding the desired results. Communication with contractor personnel about performance should not lead to Government direction in a manner that compromises the contractor's responsibility or ability to manage under the contract.

7. Organizational Levels and Functions

The following basic organizational structure is appropriate for most situations. This structure and responsibilities may be modified to fit the circumstance:

- a. Fee Determination Official
- b. Performance Evaluation Board (with chairperson)
- c. Performance Evaluation Coordinators (*optional*)
- d. Performance Monitors

Fee Determination Official (FDO) -The FDO is organizationally senior to the Performance Evaluation Board (PEB) members. The FDO is identified by position title, and not name, in the award fee evaluation plan. This establishes the level of the award fee determinations, while eliminating the need to modify the contract if the incumbent FDO changes. The FDO's responsibilities include:

- a. Establishing the PEB
- b. Approving the award fee evaluation plan and any changes required during performance, unless the FDO delegates responsibility for changes to the plan to the PEB.
- c. Considering the PEB report for each evaluation period and discussing it with the PEB Chair and, if appropriate, with others such as the contractor.
- d. Determining the amount of award fee earned and payable for each evaluation period. In the cases where all evaluation ratings are interim except the last one, determining the amount of interim award fee to be paid for each evaluation period. The FDO ensures the amount and percentage of award fee earned accurately reflects the contractor's performance.
- e. Justifying and documenting for the contract file any variances between the PEB recommendation and FDO determination.

- f. Signing the award fee determination letter specifying the amount of award fee earned and the basis for that determination for the evaluation period.

Performance Evaluation Board (PEB) - The PEB is established by the FDO. The PEB brings a broader management perspective to the evaluation process than at the monitor level (and PEB members should be at a higher management level than performance monitors). The qualifications of PEB members will vary depending on the nature, dollar value and complexity of the contract. The PEB should include at least members with overall responsibility for the technical and contracting aspects of contractor performance. Board members should be familiar with the type of work to be evaluated and be able to devote enough time to their assignment to perform thorough and prompt reviews. The PEB should be established in sufficient time so it can develop (or oversee development) and distribute an approved evaluation plan *before* the start of the first evaluation period. PEB responsibilities include:

- a. Conducting ongoing evaluations of contractor performance based on Performance Monitor reports and additional performance information as may be obtained from the contractor and other sources. The PEB evaluates contractor's performance according to the standards and criteria stated in the performance evaluation plan.
- b. Submitting a PEB report to the FDO covering the Board's findings and recommendations for an award fee amount for each evaluation period.
- c. Recommending appropriate changes in the performance evaluation plan for approval by the FDO (if plan changes are not delegated to the PEB), if any.

Performance Evaluation Board (PEB) Chair - The FDO designates one PEB member as the Chair. The functions of a PEB Chair include:

- a. Scheduling PEB meetings, controlling attendance and chairing the meetings.
- b. Recommending appointment of nonvoting members to assist the PEB perform its functions, e.g., a recording secretary.
- c. Appointing monitors for the contract effort and assuring they are provided appropriate instructions and guidance.
- d. Requesting and obtaining performance information from other personnel involved in observing contractor performance, as appropriate.
- e. Obtaining help from other personnel to consult with the PEB, as needed.
- f. Preparing and obtaining approval of the PEB report and other documentation such as PEB minutes.
- g. Ensuring the timeliness of award fee evaluations.

Performance Monitors - Monitors provide continuous evaluation of the contractor's performance in specific assigned areas of responsibility. This often daily oversight is the foundation of the award fee evaluation process. Performance monitors are specialists familiar with their assigned areas of cognizance; their monitor duties generally are in addition to, or an extension of, their regular responsibilities. In performing their duties, monitors should maintain ongoing communication with their contractor counterparts, conduct assessments in an open, objective and cooperative spirit, and emphasize applicable negative and positive performance elements. Monitors are designated by the PEB Chair. Responsibilities of Performance Monitors include:

- a. Monitoring (not directing), evaluating and assessing contractor performance in their assigned areas. This activity is conducted according to contract requirements and the award fee plan so that evaluations are fair and accurate.
- b. Periodically preparing a Performance Monitor report for the PEB and, if necessary, providing verbal presentations as well.
- c. Recommending any needed changes in the performance evaluation plan for consideration by the PEB and the FDO.

Performance Evaluation Coordinator (PEC) – In certain high dollar value, complex efforts, the following organizational level also might be used. Performance Evaluation Coordinators provide centralized direction to the various performance monitors and consolidate the findings of the performance monitors for review at the next highest evaluation level. The PEC level should be used only when a very large number of performance monitors are involved in the evaluation process. Each PEC (appointed by the PEB Chair, with appropriate notification to the contractor) is responsible for one of the broad functional areas to be evaluated, such as technical or project management. PEC duties include:

- a. Furnishing instructions to performance monitors in their assigned areas.
- b. Ensuring that the contractor is promptly notified whenever a problem is identified requiring immediate contractor attention. However, PECs should not give technical direction unless they are designated contracting officer's representatives (CORs) and their contracts contain a technical direction clause.).
- c. Coordinating, consolidating and analyzing data submitted by their performance monitors and preparing a concisely written PEC report for presentation to the next highest evaluation level for each evaluation period.

8. Training

All personnel involved in award fee administration should be trained on the process. Training should begin before or immediately after contract award so that personnel understand the award fee process before beginning their duties. Training should cover the performance

evaluation plan, roles and responsibilities, documentation requirements, evaluation techniques, and other areas such as:

- ☐ What is an award fee contract
- ☐ What is being evaluated
- ☐ How will information be gathered; what techniques will be used (e.g., inspection, sampling of work, observation, review of reports or correspondence, or customer surveys);
- ☐ When or how often will information be obtained (e.g., daily, weekly or monthly);
- ☐ How will performance monitors secure information from functional specialists to cover areas in which the monitors may not be personally involved; and
- ☐ Evaluation scoring processes and the need for consistency between scoring and evaluation summaries.

9. Steps in the Evaluation Process

Assuming the basic three-level organizational structure, the sequence of events leading to an award fee determination is:

- a. A certain number of days before the period starts (specified in the performance evaluation plan), the contractor is provided with any changes to the performance evaluation plan. In addition, the PEB may determine that it wants to highlight a performance area that the contractor should pay particular emphasis to during the period. For instance, an area of performance during the period may be of particular risk to the program. The PEB may want to focus the contractor's attention on this area of risk by highlighting it. This may be done by issuing a "letter of emphasis" to the contractor a certain number of days prior to the start of the evaluation period, if specified in the performance evaluation plan.
- b. During the course of the evaluation period, performance monitors track contractor performance. Interim (mid-term) evaluations may be used to identify strengths and weaknesses in the contractor's performance during the period being evaluated. Interim evaluations are documented and should involve the FDO.
- c. At the end of the period, the performance monitors assess and document the contractor's performance, and report to the PEB.
- d. The PEB considers the performance monitors' reports and any other pertinent information, including information provided by the contractor during the evaluation period, and prepares a report for the FDO with findings and recommendations.
- e. The contractor may be allowed to comment on its performance during the evaluation period, using one or more of the following methods:

- ☐ The contractor may provide a written or oral self-assessment of its performance for consideration by the PEB.
- ☐ The contractor may be provided a copy of the PEB's draft findings and recommendations and may be allowed to identify factual errors. Any errors identified by the contractor would be addressed by the PEB in its final report. The contractor's draft recommendation is not a subject for negotiation; the PEB should not engage in discussions with the contractor.
- ☐ The contractor may be provided a copy of the final PEB report at the same time as the PEB submits it to the FDO. Contractor may submit comments directly to the FDO for consideration.

f. The FDO meets with the PEB to discuss the PEB's report. The FDO then makes a final determination in writing for the amount of award fee earned and to be paid. The FDO provides the determination to the CO, who sends it to the contractor. The FDO's rating is provided to the contractor as quickly as possible after the end of the period being evaluated. The FDO and PEB should provide a debriefing to the contractor after the rating has been issued.

g. Payment to the contractor should be made as soon as possible after the end of the period. The contractor submits a separate voucher for award fee to be paid.

10. Performance Evaluation Plan (PEP)

The performance evaluation plan (PEP) includes:

- ☐ Organizational structure for award fee administration
- ☐ Method for determining award fee, including evaluation criteria and periods
- ☐ Method for implementing any changes in plan coverage

The plan should be tailored to the particular situation and should:

- ☐ Focus the contractor on performance areas of greatest importance to motivate it to make the best possible use of company resources to improve performance;
- ☐ Provide for evaluations of contractor performance levels, taking into consideration contributing circumstances and contractor resourcefulness;
- ☐ Clearly communicate evaluation procedures and provide for effective, two-way communication between the contractor and the Government personnel responsible for evaluating performance and making award fee determinations;
- ☐ Provide for an equitable and timely evaluation process;
- ☐ Establish an effective organizational structure, commensurate with the complexity and dollar value of the particular procurement, to administer the award fee provisions; and
- ☐ Be kept as simple as feasible; the simpler the plan, the more effective it is likely to be.

11. Changing the Performance Evaluation Plan

The performance evaluation plan is usually not included in the contract. This gives FAA the right to unilaterally alter the plan to reflect any changes in management emphasis. If the plan is made a part of the contract, then FAA's ability to unilaterally change the plan must be specifically stated in the contract. Unilateral changes may be made to the plan if the contractor is provided written notification by the CO before the start of the upcoming evaluation period. Changes affecting the current evaluation period must be by mutual agreement of both parties. All significant changes to the award fee plan should be coordinated with the PEB and approved by the FDO. Examples of significant changes include revising evaluation criteria, adjusting weights to redirect contractor's emphasis to areas needing improvement, changing PEB membership, and revising the distribution of the award fee dollars. It is important that the provision for unilateral changes be clearly described in the contract. The fact that the plan can be unilaterally changed does not give the FAA the right to unilaterally change other award fee provisions or other terms of the contract, absent contract language allowing it to do so.

~~The Appendix to this guidance includes a sample PEP.~~

12. Performance Evaluation Factors

It is neither necessary nor desirable to include all functions required by the statement of work as part of the performance evaluation plan. However, those functions selected should be balanced so that a contractor, when making trade-offs between evaluation factors, assigns the proper importance to all of the critical functions identified. For example, the plan should emphasize a combination of technical performance and cost considerations, because an evaluation plan limited to technical performance (alone) might result in increased costs out of proportion to any benefits gained.

Spreading the potential award fee over a large number of performance evaluation factors dilutes emphasis. Instead, broad performance factors should be selected, such as technical, project management and cost control, supplemented by a limited number of subfactors describing significant evaluation elements over which the contractor has effective management control. Prior experience can be helpful in identifying those key problem or improvement areas that should be subject to award fee evaluations.

Some basic areas of performance need to be evaluated and rewarded on every contract. Other areas are critical only in some instances. Cost control will always be included as an evaluation factor for cost-plus-award fee contracts, if there isn't a separate cost incentive in the contract. In general, controlling the cost of the system/equipment or service being provided, its quality (technical merit, design innovation, reliability, etc.), and its timely delivery will always be important-- although their relative importance and the measure of what constitutes good performance may vary. The relative importance of the factors and the method of evaluating a contractor should be tailored to fit the needs of individual procurement. For example, providing an item on time is generally critical to the contract. However, earlier delivery might also be of benefit to the Government and worth incentivizing. On the other hand, early deliveries might be of no benefit, or even cost the Government money if companion technologies are not yet available resulting in increased costs to the Government for storage.

The evaluation factors used in award fee should not be standardized. Rigid standardization tends to generate evaluation plans that are either too broad or include factors inapplicable to a given function. In either case, evaluators are likely to experience difficulties in providing meaningful comments and ratings. It is preferable to tailor performance evaluation plans and factors to fit the circumstances. As contract work progresses from one evaluation period into the next, the relative importance of specific performance factors may change.

Depending on the situation, performance evaluation factors may include outcomes, outputs, inputs or a combination of the three. An outcome factor is an assessment of the results of an activity compared to its intended purpose. Outcome-based factors are the least administratively burdensome type of performance evaluation factor, and should provide the best indicator of overall success. Outcome-based factors should be the first type of evaluation factor considered, and are often ideal for non-routine efforts.

An output factor is the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner. Output factors may be more desirable for routine efforts. When output factors are used, care should be taken to ensure that there is a logical connection between the reported measures and the program's mission, goals, and objectives. Examples of outcome and output factors:

Outcome: Safely install and ensure the lighting systems are certified and operational to satisfy needs.

Output(s):

- ☐ Deliver lighting systems to airports no later than July 15, 2008.
- ☐ Assemble and certify lights at each airport not later than December 15, 2008.
- ☐ Install and ensure lighting compatibility at each airport by January 5, 2009.

Outcome: Ensure program spare parts are maintained at a level sufficient to provide a 6-month supply at normal monthly draw down.

Output: Store a minimum of 1,000 program spare parts.

Input factors refer to intermediate processes, procedures, actions or techniques that are key elements influencing successful contract performance. These may include testing and other engineering processes and techniques, quality assurance and maintenance procedures, subcontracting plans, purchasing department management, and inventory, work assignment and budgetary controls.

While it is sometimes valuable to consider input and output factors when evaluating contractor performance, it is preferred to use outcome factors when feasible since they are better indicators of success relative to the desired result. For example, in the case of service contracts where performance is demonstrated and measurable in each evaluation period, input factors may be of value in building a historical database, but may be of little or no value in the evaluation process. Accomplishments, such as achieving small and small disadvantaged subcontracting goals, are what are important, as opposed to efforts expended. In other contracts, however, where the quality of performance cannot be

determined with certainty until the end of the contract, input factors can be useful indicators of how well the contractor is achieving its ultimate performance objective. However, a heavy emphasis on input factors, while meant to provide positive motivation to the contractor in certain areas of performance, may in some cases because the contractor to divert its attention and focus from the overall output or outcome desired. Input factors are not always true indicators of the contractor's ultimate performance and so should be relied on with caution.

Some examples of performance evaluation factors, subfactors and criteria are shown below. They do not cover all possibilities, but illustrate some of the key performance areas that can be selected as evaluation factors.

Technical Performance - Accomplishment achieved in the areas of:

- ☐ Design: Approach in design concepts, analysis, detailed execution and low cost design and manufacturing. Design of test specimens, models and prototypes.
- ☐ Development: Conception/execution of manufacturing processes, test plans and techniques. Effectiveness of proposed hardware changes.
- ☐ Quality: Quality assurance, e.g., appearance, thoroughness and accuracy, inspections, customer surveys.
- ☐ Technical: Meeting technical requirements for design, performance and processing, e.g., weight control, maintainability, reliability, design reviews, test procedures, equipment, and performance.
- ☐ Processing Documentation: Timely and efficient preparation, implementation and closeout.
- ☐ Facilities/GFE: Operation and maintenance of assigned facilities and Government Furnished Equipment.
- ☐ Schedule: Meeting key program milestones and contractual delivery dates; anticipating and resolving problems; recovery from delays; reaction time and appropriateness of response to changes.
- ☐ Safety: Providing a safe work environment; conducting annual inspections of all facilities; maintaining accident/incident files; timely reporting of mishaps; providing safety training for all personnel.
- ☐ Information Management: Ability of computer system to provide adequate, timely and cost effective support; meets security requirements; management information systems ensures accurate, relevant and timely information.
- ☐ Material Management: Efficient and effective processing of requisitions, with emphasis on priority requisitions; responsiveness to changes in usage rates.

Project Management - Accomplishment achieved in the areas of:

- ☐ Program Planning/Organization/Management: Assignment and utilization of personnel; recognition of critical problem areas; cooperation and effective working relationships with other contractors and Government personnel to ensure integrated operation efficiency; support to interface activities; technology utilization; effective use of resources; labor relations; planning, organizing and managing all program elements; management actions to

achieve and sustain a high level of productivity; response to emergencies and other unexpected situations.

- ☐ Compliance with contract provisions: Effectiveness of property and material control, Equal Employment Opportunity Program, Minority Business Enterprise Program, system and occupational safety and security.
- ☐ Effectiveness in meeting or exceeding small business and small disadvantaged business subcontracting goals.
- ☐ Subcontracting: Subcontract direction and coordination. Purchase order and subcontractor administration.
- ☐ Timely and accurate financial management reporting.

Cost Control – The procurement team may consider the contractor's ability to control, adjust and accurately project contract costs (estimated contract costs, not budget or operating plan costs) through:

- ☐ Control of indirect and overtime costs. o Control of direct labor costs.
- ☐ Economies in use of personnel, energy, materials, computer resources, facilities, etc.
- ☐ Cost reductions through use of cost savings programs, cost avoidance programs, alternate designs and process methods, etc.
- ☐ "Make versus buy" program decisions.
- ☐ Reduced purchasing costs through increased use of competition, material inspection, etc.

The predominant consideration when evaluating cost control should be an objective measurement of the contractor's performance against the estimated cost of the contract, including the cost of undefinitized contract actions when appropriate. The estimated cost baseline should be adjusted to reflect cost increases or decreases associated with changes in Government requirements or funding schedules which are outside the contractor's control. In rare circumstances, contract costs might increase for reasons outside the contractor's control and for which the contractor is not entitled to an equitable adjustment, such as weather-related. Such situations should be taken into consideration when evaluating contractor cost control. In the case of contracts for services where contractor performance is consistent and complete within each evaluation period and does not carry over into succeeding periods, negotiated estimated cost can generally be apportioned among the evaluation periods. Cost control for each evaluation period can then be measured against that period's share of the estimated costs.

However, where contractor performance cannot be ascertained until the end of the contract (such as contracts for R&D) and cost expenditures can vary significantly from one evaluation period to the next, it makes more sense to evaluate interim contractor cost control against a cumulative expenditure profile that reflects the estimated cost.

13. Quantitative and Qualitative Standards

Once evaluation factors are selected, standards or criteria are developed for measuring contractor performance and assessing the amount of award fee earned.

Quantitative or objective performance measurement standards are based on well-defined parameters for measuring performance. They include customer surveys, inspection reports and test results.

Quantitative measures should be used whenever the given performance can be precisely or finitely measured. Sufficient information or experience must be available to permit the identification of realistic standards against which quantitative measurements may be compared.

Unlike the predetermined targets and fee adjustment formulas used in incentive fee type contracts, any comparison of contractor performance against quantitative standards in the award fee environment will need to be tempered by a qualitative evaluation of existing circumstances. Quantitative measurements are not a substitute for judgment. Keep in mind that any reasonable assessment of effectiveness requires an evaluation process encompassing both performance levels and the conditions under which those levels were achieved. To be realistic, any standard (or range of acceptable performance levels) should reflect the nature and difficulty of the work involved.

Qualitative or subjective performance standards rely on evaluator's opinions and impressions of performance quality. Qualitative assessments must be as informed as possible and not rely on personal bias or a purely intuitive feeling. Some examples are:

- ☐ **Staffing:** Optimal allocation of resources; adequacy of staffing; qualified and trained personnel; identification and effective handling of employee morale problems; etc.
- ☐ **Planning:** Adequate, quality, innovative, self-initiated and timely planning of activities; effective utilization of personnel; quality of responses; etc.

Another example of a qualitative standard is a "quality review" such as a questionnaire requiring "yes" or "no" answers, with a high proportion of "yes" answers indicative of high quality performance. Note that narrative support for questionnaire answers is required.

Where feasible, the quantitative or objective measures are preferred over qualitative or subjective ones. The greater the ability to identify and quantify the facts considered in arriving at a judgmental assessment, the more credible that assessment is likely to be (and the easier it will be to prepare the supporting documentation required).

14. Weighting Evaluation Factors

In addition to identifying how performance will be evaluated and measured, the detailed performance evaluation plan should indicate the relative priorities assigned to the various performance areas and evaluation factors and subfactors. This may be accomplished through the use of narrative phrases such as "more important," "important," and "less important" or through percentage weights. When percentages are used, the plan should state that they are for the sole purpose of communicating relative priorities, and do not imply an arithmetical precision to the judgmental determinations of overall performance quality and the amount of award fee earned.

When percentage weights are used, cost control could be at least 25 percent of the total award fee. When adjectives or narratives are used in lieu of explicit weights, cost control should be a substantial factor. No other factor should be less than 10 percent. This ensures that the factors are balanced and, when making trade-offs, the contractor assigns the proper importance to all factors.

The methodology used to establish percentage weights is illustrated in the following example:

Example:

First, list the primary evaluation factors in descending order of importance and assign a percentage weight to each factor starting with the most important. Assign the least important factor no less than 10 percent (unless the least important factor is cost control, which would be assigned a minimum of 25 percent). All assigned weightings for primary evaluation factors must total 100 percent. Round all numbers off to the nearest whole number to avoid giving the impression that the procedure is a precise one.

Next, assign percentage weights to the subfactors supporting each of the primary evaluation factors such that the total of the subfactor weights for each performance factor totals the assigned weight for that factor as shown in the example below. The actual factors and subfactors used as well as the weights assigned in any given contract may be different from those shown in the example. For instance, indirect cost control, subcontract costs, other direct costs, etc. should be evaluated when they are significant elements of cost.

Factors/Subfactors	Assigned Weight	
Technical	42%	
Design		24%
Quality		12%
Schedule		6%
Project Mgmt.	32%	
Planning		26%
Subcontracts		6%
Cost Control	26%	
Labor Cost Control		15%
Overhead Cost Control		11%
Total	100%	

15. Length of Evaluation Periods

Award fee evaluation periods should generally be between three to six months. Too short of an evaluation period can be administratively burdensome and lead to hasty or late evaluations which result in late fee determinations. Alternatively, evaluation periods may be tied to completing milestones. When linking evaluation periods to milestones, ensure evaluations do not occur at infrequent intervals or become subject to lengthy slippage.

16. Allocation of Award Fee

After the total award fee amount is established, the total pool is allocated over the award fee evaluation periods. For contracts where each evaluation is final, the allocation of award fee determines its distribution for final payment purposes. For other contracts, where all evaluations (and payments) are interim, except the final evaluation, award fee is allocated among the evaluation periods solely for the purpose of making interim payments against the final evaluation. That final evaluation will determine the amount of total award fee actually earned by the contractor and will supersede any interim evaluations and payments made.

The distribution of the award fee pool depends on the circumstances. Contractor expenditure profiles may be considered. The total may be allocated equally among the evaluation periods if the risks and type of work are similar throughout the various evaluation periods. Otherwise, if there is a greater risk or critical milestones occur during specific evaluation periods, a larger portion of the pool may be distributed to those periods. This permits the Government to place greater emphasis on those evaluation periods. For example, if a contract has a short initial evaluation period for the contractor to become familiar with the work, the initial period of performance may have a smaller allocation while the remaining pool is divided equally among the remaining evaluation periods. If the schedule for a significant event changes, any potential award fee amount associated with that event must be reallocated accordingly for interim payment purposes.

The following example illustrates an unequal allocation of award fee among the four performance periods, reflecting different degrees of emphasis.

Estimated Cost	\$5,000,000
Base Fee (0%)	0
Total Award Fee (10%)	\$ 500,000
Total	\$5,500,000

Evaluation Periods

	1	2	3	4	Total
Allocation (%)	10%	26%	40%	24%	100%
Allocation (\$)	\$50,000	\$130,000	\$200,000	\$120,000	\$500,000

17. Evaluation of Delivery or Task Order Contracts

A delivery or task order contract may provide for orders with specific requirements that are independent of any other orders' requirements and that have separate, distinct sources of funding. For such orders, an award fee amount could be allocated to each individual order along with the estimated cost. Contractor performance on each order would be evaluated against the award fee criteria on a task-by-task basis. There are instances where the Government wants to motivate the contractor's performance at the contract level versus each individual order. This condition may exist when the overriding objective is not how each individual order is executed, but how the contractor's performance of multiple orders contributes to meeting the overall contract objectives. For example, it may not be cost effective to evaluate contractor performance on a task order basis, or when unknown/undefined requirements may materialize during the contract. An unknown requirement may arise that has a higher

priority than an existing order. The primary objective is for the Government/contractor team to make trade-offs between the orders in a constrained environment (funding, staffing, etc.) to ensure the optimal capability is achieved at the system performance level. Therefore, the ultimate measure of success is judged as meeting the overall contract objectives and not necessarily on the performance of a single order. In this case it is in the Government's best interest to incentivize the contractor to focus its efforts and perspective on overall contract performance versus the individual orders. This does not preclude management of individual orders. To ensure that there is no confusion about how the contractor's performance will be evaluated, the award fee plan must clearly state whether the evaluation criteria are applicable at the contract or individual order level.

18. Interim and Final Evaluations

The decision about whether to conduct interim or final evaluations depends on the circumstance. In service contracts, the contract deliverable is a service and contractor performance is measurable at each evaluation period. Performance is usually not cumulative and its quality cannot be improved or reduced by future performance. For that reason, in service contracts, evaluations should be final and unearned award fee cannot be "rolled over" into subsequent evaluation periods or ever retroactively "taken back." On other contracts such as study, design or hardware, where the true quality of contractor performance cannot be measured until the end of the contract, the contract deliverable is an end item. Contractor performance leading up to delivery of the end item is an indication of whether and how well it will produce the end item, but it is not the end item itself. Since the actual quality of the end item cannot be determined until the end of the contract when it is delivered, the last evaluation should be final. All other evaluations and ratings would be interim.

At the end of the contract, the contractor's total performance is evaluated against the performance evaluation plan to determine total earned award fee. That final rating supersedes all interim ratings. It is not the average of the interim ratings. Instead, it reflects the contractor's position at the end of the contract rather than its interim progress toward that position. For example, how well a contractor has controlled costs can only be determined at the end of the contract when the contractor is evaluated against its final cost position. Whether the contractor was overrunning or underrunning the contract estimated cost at various points in time is irrelevant. The contractor's success is measured against the end result. Likewise, the contractor's ability to meet the contract schedule is determined when the hardware is delivered and accepted by the Government. Whether the contractor was behind or ahead of schedule during the course of the contract is not relevant in the final evaluation. The same thing is true of the other evaluation factors and subfactors.

Any significant events that contributed over the course of the contract to the contractor's position (such as delays in receipt of Government furnished equipment), should be considered in the final award fee determination. Those events should be examined as they relate to the final contract outcome and not to the individual evaluation periods in which they occurred.

19. Grading and Scoring Contractor Performance

Grading and scoring methods are used to translate evaluation findings into recommended award fee amounts or ranges. The purpose is to help the FDO decide the amount of award fee earned. These methods are evaluation tools and are not a substitute for judgment in the award fee determination

process. The decision process cannot be reduced to a mathematical formula or methodology. Either a weighted or nonweighted process can be used to evaluate performance.

One method is for evaluators to start from the satisfactory performance level and adjust the scores upwards or downwards, depending on the contractor's performance for the period. A rating table may be used as a guide. Another method is for evaluators to use "blind" evaluation sheets where they are asked to rate different criteria using numbers based on the adjectival ratings. The weights that will eventually be applied to their ratings do not appear on the sheets. This approach relieves to some extent the pressure placed on the evaluators by contractor employees.

As a general guideline, a contractor which satisfactorily meets its contractual commitment will fall into the "good" (71-80) range. To earn an "excellent" score (91-100), a contractor must provide exceptional performance--a combination of excellent cost, schedule and technical management. Some general considerations in the development of a grading and scoring methodology are as follows:

- ☐ When Government actions impact contractor performance either positively or negatively, e.g., changes in funding allocation or increased emphasis on certain technical requirements which require the contractor to make unexpected and extensive tradeoffs with other technical requirements, those actions should be considered in the scoring and grading process.
- ☐ The methodology should be kept as clear and simple as possible. In particular, the situation where specially tailored evaluation factors are force-fit to a "standard" grading table or scoring formula should be avoided.
- ☐ The maximum fee should be attainable by the contractor. To be a credible and effective motivator, an award fee contract should provide the contractor with a reasonable opportunity to earn the maximum award fee available. Although a reasonable opportunity generally does not mean absolute perfection in all possible performance areas, the contractor's performance should be outstanding in virtually all areas. On the other hand, providing a contractor the maximum fee on every contract, does not adequately address the issues of risk and effort.
- ☐ Documentation of assigned performance values is required in support of award fee recommendations and computations.

20. Award Fee Conversion Table

An award fee conversion table may be used to translates overall evaluation scores (i.e., numerical performance points) into the earned award fee amount. This conversion may be linear (e.g., direct conversion of evaluation points to percentage of award fee earned) or non-linear (e.g., a formula to translate performance points to award fee earned). Use of a conversion table does not remove the element of judgment from the award fee process. Regardless of the method used, zero award fee will be earned for an overall unsatisfactory performance.

The following rating table may be used as a guide for award fee. Earned award fee (or interim award fee amounts in the case of interim evaluations) is calculated by applying the total numerical score to the award fee pool. For example, a numerical score of 85 yields an award fee of 85 percent of the award fee pool available for that evaluation period. The table below lists the award fee evaluation adjectival ratings with their corresponding score ranges. In addition, a narrative

description is also provided to assist the PEB in applying the ratings. Criteria for evaluation factors and subfactors should reflect the table.

Adjective Rating	Range of Performance Points	Description
Excellent	(100-91)	Of exceptional merit; exemplary performance in a timely, efficient and economical manner; very minor (if any) deficiencies with no adverse effect on overall performance.
Very Good	(90-81)	Very effective performance, fully responsive to contract requirements ; contract requirements accomplished in a timely, efficient and economical manner for the most part; only minor deficiencies.
Good	(80-71)	Effective performance; fully responsive to contract requirements; reportable deficiencies, but with little identifiable effect on overall performance.
Satisfactory	(70-61)	Meets or slightly exceeds minimum acceptable standards; adequate results; reportable deficiencies with identifiable, but not substantial, effects on overall performance.
Poor/ Unsatisfactory	(less than 61)	Does not meet minimum acceptable standards than in one or more areas; remedial action required in one or more areas; deficiencies in one or more areas which adversely affect overall performance.

No fee will be paid when the total evaluation score is less than 61. In addition, any factor that receives a score of less than 61 for "poor/unsatisfactory" performance will not be rewarded and converted to a factor score of zero. Such zeroing-out should not be done at the subfactor level.

21. Scoring of Cost Control

Cost control should be a substantial factor in any performance evaluation plan, except when a fixed-price award fee, fixed-price incentive or cost-plus-incentive fee contract is used. The contractor's success in controlling costs must be measured against contract estimated costs, and not against budgetary or operating plan costs. The following scoring guidelines will help ensure that cost control receives the proper emphasis:

- a. Whenever there is a significant cost overrun that was within its control, a contractor should be given a score of zero. If the overrun is insignificant, a higher score may be given. The reasons for the overrun and the contractor's efforts to control or mitigate the overrun should be considered in the evaluation.

b. Cost underruns within the contractor's control should normally be rewarded. However, the extent to which an underrun is rewarded will depend on the size of the underrun and the contractor's level of performance in the other award fee evaluation factors. Contractors should not be rewarded for excelling in cost control to the detriment of other important performance factors. For that reason, whether a cost underrun is rewarded in the evaluation process and, if so, the degree to which it is rewarded depends, not only on the size of the underrun, but also on how well the contractor is performing overall in the other evaluation areas.

c. When the contractor achieves the negotiated estimated cost of the contract, it should not receive the maximum score for cost control. The maximum score for cost control should only be awarded for achieving an underrun. Some lesser score will be assigned, reflecting the degree to which the contractor has prudently managed costs while meeting contract requirements.

22. Example - Calculating Earned Fee

The following example illustrates how evaluation scores for weighted factors and subfactors are calculated to arrive at a total award fee recommendation. Again, keep in mind that the use of weighted factors to calculate an award fee amount is an evaluation aid; the result does not represent a required award fee amount.

a. Background: This CPAF contract covers design and verification testing of hardware. The contractor is also required to deliver eight production items. The total estimated cost and award fee is \$300,000,000. The available award fee for the current interim evaluation period (#7) is \$2,600,000. Evaluation factors and assigned weights are:

Evaluation Factor/ Subfactor		Assigned Weight	
Technical		42%	
	Design		24%
	Quality		12%
	Schedule		6%
Project Management		32%	
	Planning		26%
	Subcontracts		6%
Cost Control		26%	
	Labor Cost Control		15%
	Overhead Cost		11%

	Control		
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b. PEB Findings: The findings of the PEB for the most recent evaluation period are summarized below:

Contractor performance was rated very strong overall in the technical area. Accomplishments included successful design and installation of in-flight wear monitors, and successful test of a redesigned turbo pump. Some weaknesses were identified, the most serious of which was an incompatibility between two components which was not resolved during the period, resulting in a slight schedule slip. In the area of project management, strengths were identified, including communication of program activities to the proper management levels, on- schedule delivery of critical subcontracted hardware, and exceeding subcontracting goals. Weaknesses included ineffective checks and balances for processing hardware and insufficient management involvement at vendor sites which has jeopardized hardware integrity. In the cost control area, the cost overrun increased by 14% in this period due in large part to labor costs. Projected overhead increases were also reported; however, the contractor has identified and will implement cost reduction measures which are expected to ameliorate the problem. (Note - promises of future actions are not normally considered in the current period evaluation, but in this case the overhead increase is also only a projection.)

c. Calculating Weighted Performance Points: As a result of the evaluation, the following performance points were assigned and weighted for the subfactors:

Subfactor	Performance Points	Assigned Weights	Weighted Performance Points*
Design	95 (Excellent)	.24	54
Quality	90 (Very Good)	.12	26
Schedule	80 (Good)	.06	11
		Total for Technical	91
Planning	70 (Satisfactory)	.26	57
Subcontracts	86 (Very Good)	.06	16
		Total for Project Mgmt	73
Labor Cost	50 (Poor/Unsat.)	.15	29
Control			
OH Cost Control	70 (Satisfactory)	.11	30
		Total for Cost Control	59 = 0**

*Weighted Performance Points are calculated as follows: (Performance Points x Assigned Subfactor Weight)/Assigned Factor Weight = Weighted Performance Points. For example, for Design: (95 x .24)/.42 = 54

** Note that an unsatisfactory rating for a factor results in a *zero* score for that factor. The Cost Control factor received a zero score for receiving a rating of less than 61 percent. Significant cost overrun within the contractor's control should result in a score of zero for cost control.

Next, total weighted performance points were calculated for the primary evaluation factors as follows:

Weighted Factor	Performance Points	x	Assigned Weight	=	Total Weighted Performance Points
Technical	91	x	.42	=	38
Project Mgmt.	73	x	.32	=	23
Cost Control	0	x	.26	=	0
			Total for All Factors		61 (Sat.)

d. Converting Performance Points to Award Fee Score: The award fee percentage is the same number as the total weighted performance points. In this example, 61 weighted performance points equals 61% of available award fee. Award fee recommendation: \$1,586,000 (61% of \$2,600,000).

23. Example - Changes in Emphasis

If the Government's relative priorities change as work progresses from one phase into the next, or as unexpected problems or developments occur, such as schedule slippages, the evaluation plan may be revised on a unilateral basis, to communicate such changes to all parties. The following example illustrates how the Government can adjust evaluation weights to redirect contractor emphasis to areas needing improvement and the effect of that readjustment on earned award fee.

Estimated Cost	\$5,000,000
Base Fee (0%)	0
Total Award Fee (10%)	\$ 500,000

Total	\$5,500,000
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Evaluation Periods

	1	2	3	4	Total
Allocation (%)	24%	18%	18%	40%	100%
Allocation (\$)	\$120K	\$90K	\$90K	\$200K	\$500K

Evaluation Period 1:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.42	x	91 (Excellent)	=	38
Project Mgmt	.32	x	73 (Good)	=	23
Cost Control	.26	x	0 (Poor/Unsat.)	=	0
			Total		61

The contractor earns \$73,200, 61% of \$120,000.

Evaluation Period 2:

If factor weights were adjusted to increase the emphasis on cost control and its performance, and thus its performance points, remained basically the same, this would be the result:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.40	x	91	=	36
Project Mgmt	.32	x	73	=	23
Cost Control	.28	x	0	=	0
			59	=	0

The contractor would receive an award fee score of 2 percentage points less in the second period than it would have if the factor weights had not changed. As a result, the contractor would receive an overall score of Poor/Unsatisfactory and no award fee for the second period.

Now, assume that the contractor responds to the shift in emphasis by improving its performance in cost control from Poor/ Unsatisfactory *to minimally satisfactory, without reducing its score in any other area*, as follows:

Factor	Weight	x	Performance Points	=	Weighted Performance Points
Technical	.40	x	91	=	36
Project Mgmt	.32	x	73	=	23
Cost Control	.28	x	61	=	17
					76 (Good)

By increasing its performance in cost control by 31 points (from 30 to 61) - and as a result, it's total score by 17 percent to Good--the contractor is now entitled to receive an award fee payment.

If the cost control weight had not been increased in the second period, the contractor would have continued to be paid fee (61 percent of \$90,000 or \$54,900) for unsatisfactory cost control performance. By changing the factor weights to put more emphasis on cost control, the contractor is either rewarded for improved cost control with more fee than it would have received had the weights had not been changed (76% of \$90,000 or \$68,400) or penalized for not showing improvement in that area (59 percent = no award fee payment for the period).

24. Communication

A properly structured and administered award fee contract provides effective communication among Government and contractor personnel at management levels, where decisions can be made and results achieved. A post-award conference is one way to establish communication channels early and to ensure key Government and contractor personnel understand their responsibilities. Attendees should review and discuss the performance evaluation plan and contract requirements. Frequent and honest communication is essential, both between the Government and contractor and within their respective organizational frameworks. Both Government and contractor personnel should be encouraged through the award fee process to identify potential problems as promptly as possible (as opposed to withholding such "bad news" for fear it might result in unfavorable criticism).

25. Contractor Input

The contractor may be allowed to furnish a self-assessment of its performance. Once the PEB report is prepared, the PEB may also allow the contractor to comment on the draft report. Contractor participation at this point ensures all pertinent data has been considered and no factual errors were used as a basis for decisions. Such communications, however, must not result in negotiation of award fee ratings. The ratings should be fair and reasonable, but are ultimately a unilateral Government determination. Throughout the period of performance, the contractor may be permitted to submit suggestions for improving or changing the evaluation process. In addition to the various formal communications channels, both parties should recognize that frequent, less formal discussions are valuable in ensuring ultimate program success. Both the Government and the contractor should work to eliminate any unnecessary contractual, organizational or conceptual barriers that constrain information sharing and other communications needed for successful joint problem solving.

26. Timeliness

The timeliness of award fee evaluations is critical. Long delays minimize any benefits from periodic evaluations and reports. Unless evaluation results are transmitted timely and award fee payments made promptly, the results and payments may not have the desired influence on the contractor's performance during subsequent evaluation periods. The timeliness of changes in the evaluation plan is also important. Proposed changes should be processed expeditiously and the contractor notified in advance of the evaluation period to which they apply.

27. Documentation

Performance monitors should consider the following when preparing their reports. These questions can help assure evaluation data are complete and accurately assess how well the contractor performed in the monitors' assigned areas during the period.

- a. What (in the monitor's area) was the contractor supposed to do during the period? What was actually accomplished?
- b. How critical are the efforts accomplished, or not accomplished, by the contractor?
- c. What was the impact of any efforts completed early or late? How critical was the time frame involved?
- d. How well did the contractor perform the tasks that were accomplished?
- e. What are the major strengths and weaknesses (in sufficient detail to discuss with the contractor)?
- f. Were any Government-directed changes made or did any obstacles arise which impacted performance? What corrective actions were implemented? How effective were they?
- g. Has the contractor efficiently and effectively used available resources (e.g., personnel and facilities) to improve its performance?
- h. Has the contractor's performance been clearly assessed in regard to all tasks and specific objectives?
- i. On level-of-effort contracts, what has the contractor accomplished for the dollars spent (The emphasis here is to reward the contractor for accomplishments, not to reward the spending of dollars.)

The reporting formats used by monitors should be structured to ensure accuracy and clarity. Where possible, several evaluation parameters may be consolidated in a single format. Consistency can be achieved by using the same general format for all closely related work at a given activity. However, caution is required here. Carefully tailored evaluation plans can be compromised by inflexible and ill-conceived rating formats. Any format adopted should provide a place for the monitors to make narrative comments. These narrative comments provide detailed, pertinent information not addressed in the completed format. For example, they cover the circumstances under which reported performance levels were achieved, especially if these circumstances were abnormal in any way. These comments also discuss the contractor's efficiency in managing assigned personnel and other resources. Enough detail should be included in reports to the PEB to ensure that their findings and recommendations are accurate and fair and can be supported to the FDO.

Appropriate documentation is vital to support the PEB's recommendations, particularly when these recommendations differ from the conclusions reported by cognizant monitors. Minutes of meetings or other documentation should summarize the information reviewed, including any additional or explanatory information provided by the contractor and the consideration given to all such information. Since the evaluation is a judgment based upon all pertinent information, that information needs to be identified, discussed and substantiated in the documentation. The FDO will want to review the documentation to satisfy any concerns regarding contractor performance before deciding whether to accept the recommended award fee or some higher or lower amount. Examples of what the FDO might look for include:

- a. The facts that led to the assignment of a poor/unsatisfactory rating in any subfactor;
- b. The rationale for a poor/unsatisfactory rating as opposed to a satisfactory rating; and

- c. The circumstances under which a poor/unsatisfactory level was achieved and the relationships, if any, between it and any excellent performance levels reported for other subfactors.

Sufficient documentation should be provided to the FDO on which to base a decision and to explain that decision to the contractor. Similarly, the FDO must document the basis for the determination, especially in situations involving a contractor rebuttal of PEB findings and conclusions or an award fee determination different from that recommended by the PEB. Documentation of interim ratings may be less detailed since they will be superseded by the final rating at the end of the contract.

28. Payment

Final award fee payments and interim payments against interim evaluations should be made generally within 60 days after the end of the evaluation period for which payment is being made.

When the total rating for an evaluation period is "poor/unsatisfactory," no award fee is paid for that period. For example, a total award fee rating of 57 ("poor/unsatisfactory") would yield an award fee of zero, not 57 percent. For certain contracts involving delivery of a final product, such as hardware, design or study, no award fee will be paid for a final evaluation rating of "poor/unsatisfactory." In these cases, any provisional award fee payments made as a result of "satisfactory" or better ratings (61 and above) on interim evaluations are to be repaid by the contractor.

The amount of interim award fee paid each period will not exceed the interim evaluation score (applied as a percentage) or 80 percent of the award fee allocated to the period, whichever is less. No further award fee payments will be made when the CO determines that the total amount of interim payments made to date will substantially exceed the amount which would be paid based upon the anticipated final evaluation score. The PEB should be notified of such a determination. The CO's determination should be based on a comparison of award fee amounts paid to actual evaluation scores to date, projected future scores based on a combination of past performance trends and any known data which might have an influence on future performance, and any other pertinent data. Stopping award fee payment serves two purposes: it ensures that contractors will not receive award fee which they have not earned and to which they will ultimately not be entitled, and it minimizes the award fee that will be owed the Government by the contractor at the end of the contract.

29. Provisional Payments

Long evaluation periods may require FAA to make award fee payments more frequently than at the end of each evaluation period. These provisional payments, representing a percentage of the award fee amount allocated to each evaluation period, are made at regular intervals during each period. They are superseded at the end of each period by the interim or final award fee determination amount. The percentage of allocated award fee to be paid provisionally will be stipulated in the contract and may not exceed 80 percent of available award fee in any period.

Provisional payments are discontinued during any period in which the Government determines that the total provisional payments made during that period will substantially exceed the amount which would be paid based upon the anticipated evaluation score for the period. In the event the amount of

provisional payments made exceeds the amount of the award fee determination for that period, the contractor will either credit the next payment voucher for the amount of the overpayment or refund the difference.

30. Contract Termination

If a contract with award fee is terminated for convenience after the start of an award fee evaluation period, the earned award fee amount should be determined by the FDO using the normal award fee evaluation process. The remaining available award fee dollars for all subsequent evaluation periods should not be considered available or earned and, therefore, should not be paid.

END

~~2 Appendix – Sample Award Fee Performance Evaluation Plan~~ Revised 4/2021

~~SAMPLE PERFORMANCE EVALUATION PLAN~~

Contract No. _____ with _____

~~I. Introduction~~

~~II. Organizational Structure for Award Fee Administration~~

~~III. Evaluation Requirements~~

~~IV. Method for Determining Award Fee~~

~~V. Changes in Plan Coverage Attachments~~

~~III-A Evaluation Periods and Maximum Available Award Fee for Each Period~~

~~III-B Performance Evaluation Factors and Evaluation Criteria~~

~~III-B.1 Evaluation Criteria for Performance Evaluation Factor No.~~

~~III-C Grading Table~~

~~IV-A Actions and Schedules for Award Fee Determinations~~

~~IV-B General Instructions for Performance Monitors~~

~~APPROVED BY:~~

(Signature) _____ (Date)

Fee Determination Official

(Typed Name and Title)

I. Introduction

1. This plan covers administration of award fee provisions of Contract No. _____, dated _____, with _____.

The contract was awarded in accordance with the provisions of SIR No. _____.

2. The following matters, among others, are covered in the contract:

a. The contractor is required to (brief statement describing the scope of contract):

b. The contract term is from _____ through _____.

c. The estimated cost of the contract is \$ _____.

d. The base fee is \$ _____.

e. The award fee, excluding base fee, is \$ _____.

f. The estimated cost, base fee (if any), and award fee are subject to equitable adjustments arising from changes or other contract modifications.

g. The award fee payable will be determined periodically by the Fee Determination Official (FDO) in accordance with this plan.

h. Award fee determinations are not subject to the Disputes clause of the contract.

i. Unearned award fee for each evaluation period is forfeited and cannot roll over to subsequent periods.

j. The FDO may unilaterally change this plan, as covered in Part V and not otherwise requiring mutual agreement under the contract, provided the contractor receives notice of the changes at least (*insert number of days*) work days prior to the beginning of the evaluation period to which the changes apply

k. The award fee will be provided to the contractor through contract modifications and is in addition to the (*type of contract*) provisions of the contract.

~~(Note: The statements at 2.a through 2.f. can be revised as necessary to address any option(s))~~

~~H. Organizational Structure for Award Fee Administration~~

~~The following organizational structure is established for administering the award fee provisions of the contract.~~

~~1. Fee Determination Official (FDO)~~

~~a. The FDO is _____ (insert title, not name).~~

~~b. Primary FDO responsibilities are: (1) Determining the award fee earned and payable for each evaluation period; and (2) Changing the matters covered in this plan, as appropriate.~~

~~2. Performance Evaluation Board (PEB)~~

~~a. The Chair of the PEB is _____ (insert title). The following are voting members: _____ (insert titles).~~

~~b. The Chair may recommend appointment of non-voting Members to assist the Board perform its functions.~~

~~c. Primary responsibilities of the Board are:~~

~~(1) Conducting periodic evaluations of contractor performance and submitting a Performance Evaluation Report to the FDO covering the Board's findings and recommendations for each evaluation period; and~~

~~(2) Considering changes to this plan and recommending those it determines appropriate for adoption by the FDO.~~

~~3. Performance Monitors~~

~~a. One or more monitors will be assigned to each performance area to be evaluated. The assignment will be made by the PEB Chair.~~

~~b. Each monitor will comply with the General Instructions for Performance Monitors, Attachment IV-B, and any specific instructions of the PEB Chair.
Primary responsibilities of Monitors are:~~

~~(1) Monitoring, evaluating and assessing contractor performance in assigned areas;~~

~~(2) Periodically preparing a Performance Monitor Report for the PEB, or others as appropriate; and~~

~~(3) Recommending appropriate changes in this plan for consideration.~~

III. Evaluation Requirements

~~The applicable evaluation requirements are attached as indicated below:~~

Requirement	Attachment
Evaluation Periods and Maximum Available Award Fee for Each Period	III-A
Performance Evaluation Factors and Evaluation Criteria	III-B
Evaluation Criteria for Performance Evaluation Factor No.	III-B.1
Grading Table	III-C

~~The percentage weights indicated in Attachment III-B and the Attachment III-C grading table are quantifying devices. Their sole purpose is to provide guidance in arriving at a general assessment of the amount of interim or final award fee earned. In no way do they imply an arithmetical precision to any judgmental determination of the contractor's overall performance and amount of interim or final award fee earned.~~

IV. Method For Determining Award Fee

~~A determination of the award fee earned for each evaluation period will be made by the FDO Within _____ (insert days) after the end of the period. The method to be followed in monitoring, evaluating and assessing contractor performance during the period, as well as for determining the award fee earned or paid, is described below. Attachment IV-A summarizes the principal activities and schedules involved.~~

~~1. The PEB Chair should ensure a monitor is assigned for each performance evaluation factor or subfactor to be evaluated under the contract. Monitors will be selected on the basis of their expertise relative to prescribed performance area emphasis. Normally, monitor duties will be in addition to, or an extension of, regular responsibilities. The PEB Chair may change monitor assignments at any time without advance notice to the contractor. The PEB Chair will notify the contractor promptly of all monitor assignments and changes.~~

~~2. The PEB Chair will ensure that each monitor receives the following:~~

~~a. A copy of this plan along with any changes made.~~

~~b. Appropriate orientation and guidance.~~

~~c. Specific instructions applicable to the monitors' assigned performance areas.~~

~~3. Monitors will evaluate and assess contractor performance and discuss the results with contractor personnel as appropriate, in accordance with the General Instructions for Performance Monitors, Attachment IV-B, and the specific instructions and guidance furnished by the PEB Chair.~~

~~4. Monitors will submit (*insert monthly, quarterly, etc.*) Performance Monitor Reports and, if required, make verbal presentations to the PEB.~~

~~5. The PEB Chair may request and obtain performance information from other units or personnel normally involved in observing contractor performance, as appropriate.~~

~~6. _____ (*Insert monthly, quarterly, etc.*) the PEB will consider Performance Monitor Reports and other performance information it obtains and discuss the reports and information with monitors or other personnel, as appropriate.~~

~~7. The PEB will meet (*insert monthly, quarterly, etc.*) with the contractor and discuss overall performance during the period. As requested by the PEB Chair, monitors and other personnel involved in performance evaluations will attend the meeting and participate in discussions.~~

~~8. Promptly after the end of each evaluation period, the PEB will meet to consider all the performance information it has obtained. At the meeting, the PEB will summarize its preliminary findings and recommendations for coverage in the Performance Evaluation Board Report (PEBR).~~

~~9. Then the PEB may meet with the contractor to discuss the board's preliminary findings and recommendations. As requested by the PEB Chair, monitors and other personnel involved in performance evaluation will attend the meeting and participate in discussions. At this meeting, the contractor is given an opportunity to submit information on its behalf, including an assessment of its performance during the evaluation period. After meeting with the contractor, the PEB will consider matters presented by the contractor and finalize its findings and recommendations for the PEBR.~~

~~10. The PEB Chair will prepare the PEBR for the period and submit it to the FDO for use in determining the award fee earned. The report will include an adjectival rating and a recommended performance score with supporting documentation. The contractor may be notified of the PEB evaluation and recommended rating and score. The contractor may provide additional information for consideration by the FDO. When submitting the report, the Chair will inform the FDO whether the contractor desires to present any matters to the FDO before the award fee determination is made.~~

~~11. The FDO will consider the PEBR and discuss it with the PEB Chair and other personnel, as appropriate.~~

~~12. The FDO will consider the recommendations of the PEB, information provided by the contractor, if any, and any other pertinent information in determining the amount of award fee (*insert "earned", or "to be paid" if interim evaluations apply*) for the period. The FDO's determination of the amount of~~

award fee ____ (*insert “earned” or “to be paid”*) and the basis for this determination will be stated in the Award Fee Determination Report (AFDR).

~~13. The contractor will be notified of the FDO's determination by the Contracting Officer. The contractor may be provided with a debriefing by the FDO and PEB.~~

~~14. Contract Termination. If the contract is terminated for the convenience of the Government after the start of an award fee evaluation period, the award fee deemed earned for that period shall be determined by the FDO using the normal award fee evaluation process. After termination for convenience, the remaining award fee amounts allocated to all subsequent award fee evaluation periods cannot be earned by the contractor and, therefore, must not be paid.~~

~~15. Performance Incentives. (Omit if no performance incentives are included) After delivery of the hardware unit(s), hardware performance will be measured and its success, or failure, determined by the Contracting Officer based on the units of measurement and associated dollar amounts which appear in contract clause H ____ (*insert appropriate clause reference*). Either positive or negative performance incentives will apply depending on whether the hardware unit's performance exceeds or falls short of the standard performance level.~~

~~V. Changes in Plan Coverage~~

~~1. Right to Make Unilateral Changes~~

~~Any matters covered in this plan not otherwise requiring mutual agreement under the contract, may be changed unilaterally by the FDO prior to the beginning of an evaluation period by timely notice to the contractor in writing. The changes will be made without formal modification of the contract if the plan is not incorporated into the contract.~~

~~2. Steps to Change Plan Coverage~~

~~The following is a summary of the principal actions involved in changing plan coverage (actions may be modified to reflect different approval/notification levels). The PEB will establish lists of subsidiary actions and schedules as necessary to meet the below schedules.~~

Action	Schedule (Workdays)	
PEB drafts proposed changes	Ongoing	
PEB submits recommended changes to FDO for approval		days prior to end of each period
		
Through CO, FDO notifies contractor about whether or not there are changes		days before start of the applicable iod
	per	

~~3. Method for Changing Plan Coverage~~

~~The method to be followed for changing the plan coverage is described below:~~

a. Personnel involved in the administration of the award fee provisions of the contract are encouraged to recommend plan changes with a view toward changing management emphasis, motivating higher performance levels or improving the award fee determination process. Recommended changes should be sent to the PEB for consideration and drafting

b. Prior to the end of each evaluation period, the PEB will submit its recommended changes, if any, applicable to the next evaluation period for approval by the FDO with appropriate comments and justification.

c. _____ (insert number of days) work days before the beginning of each evaluation period, the contracting officer will notify the contractor in writing of any changes to be applied during the next period. If the contractor is not provided with this notification, or if the notification is not provided within the agreed-to number of work days before the beginning of the next period, then the existing plan will continue in effect for the next evaluation period.

ATTACHMENT III-A to PEP for Contract No. _____ with _____

Evaluation Periods and Maximum Available Award Fee for Each Period

Period Number		Start Date		End Date		Max. Available Award Fee
1						\$
2						\$
3						\$

ATTACHMENT III-B to PEP for Contract No. _____ with _____

Performance Evaluation Factors and Evaluation Criteria

The performance factors to be evaluated are identified below. The evaluation criteria for each factor are attached, as indicated.

Area No	Brief Factor Identification	Factor Weight	See Attachment
1			III-B.1*
2			
3			
4			
5			

* A separate attachment should be prepared for each factor.

~~ATTACHMENT III-B.1~~ to PEP for Contract No. _____ with _____

~~Evaluation Criteria for Performance Evaluation Factor No. _____~~

~~(Factor Identification Per Attachment III-B)~~

~~Factor Weight _____~~

~~Description of Factor:~~

~~Subfactors to Consider:~~

~~Evaluation Criteria: Criteria~~

~~Weights:~~

~~Basis or Standard for Measuring Performance:~~

~~ATTACHMENT III-C~~ to PEP for Contract No. _____ with _____

~~Grading Table~~

Adjectival Rating		
----------------------------------	--	--

Range of Performance

Description	Points	
Excellent	(100-91)	Of exceptional merit; exemplary performance in a timely, efficient and economical manner; very minor (if any) deficiencies with no adverse effect on overall performance.
Very Good	(90-81)	Very effective performance, fully responsive to contract requirements; contract requirements accomplished in a timely, efficient and economical manner for the most part; only minor deficiencies.
Good	(80-71)	Effective performance; fully responsive to contract requirements; reportable deficiencies, but with little identifiable effect on overall performance.
Satisfactory	(70-61)	Meets or slightly exceeds minimum acceptable standards; adequate results; reportable deficiencies with identifiable, but not substantial, effects on overall performance.
Poor/ Unsatisfactory	(less than 61)	Does not meet minimum acceptable standards in one or more areas; remedial action required in one or more areas; deficiencies in one or more areas which adversely affect overall performance.

Any factor receiving a grade of “poor/unsatisfactory” (less than 61) may be assigned zero performance points for purposes of calculating the award fee amount. The contractor will not be paid any award fee when the total award fee score is “Poor/Unsatisfactory” (less than 61).

ATTACHMENT IV-A to PEP for Contract No. _____ with _____

Actions and Schedules for Award Fee Determinations

The following is a summary of the principal actions involved in determining the award fee for the evaluation periods.

Action	(Workdays)
1. PEB Chair and members appointed.	_____ days prior to first period
2. PEB Chair appoints performance monitors and informs contractor.	_____ days prior to first period
3. Monitors receive orientation and guidance.	_____ days prior to first period
4. Monitors assess performance and discuss results with contractor.	Ongoing after start of period
5. Monitors submit Performance Monitor reports to PEB.	Last day of each _____ (insert month, quarter, etc.)
6. PEB considers Performance Monitor reports and other requested performance information.	Ongoing

7. PEB discusses overall performance with contractor during period.		days after end of period of each _____ (insert month, quarter, etc.)
8. PEB meets and summarizes preliminary findings and position of PEBR.		days after end of period
9. PEB may meet with contractor to discuss preliminary findings and position.		days after end of period
10. PEB establishes findings and recommendations for PEB report.		days after end of period
11. PEB Chair submits PEB report to FDO.		days after end of period
12. FDO considers PEB report and discusses with PEB, as appropriate.		days after end of period
13. FDO sends PEB report to contractor.		days after end of period
14. Payment made to contractor based on contract modification.		days after end of period

~~The PEB may establish lists of subsidiary actions and schedules as necessary to meet the above schedules.~~

ATTACHMENT IV-B to PEP for Contract No. _____ with _____

General Instructions for Performance Monitors

1. Monitoring and Assessing Performance

~~a. Monitors may prepare outlines of their assessment plans, discuss them with appropriate contractor personnel to assure complete understanding of the evaluation and assessment process.~~

~~b. Monitors may plan and carry out on-site assessment visits, as necessary.~~

~~c. Monitors may conduct all assessments in an open, objective and cooperative spirit so that a fair and accurate evaluation is obtained. This will ensure that the contractor receives accurate and complete information from which to plan improvements in performance. Positive performance accomplishments should be emphasized just as readily as negative ones.~~

~~d. The monitor may discuss the assessment with contractor personnel as appropriate, noting any observed accomplishments and/or deficiencies. This affords the contractor an opportunity to clarify possible misunderstandings regarding areas of poor performance and to correct or resolve deficiencies.~~

~~e. Monitors must remember that contacts and visits with contractor personnel are to be accomplished within the context of official contractual relationships. Monitors may avoid any activity or association which might cause, or give the appearance of, a conflict of interest.~~

~~f. Monitor discussions with contractor personnel are not to be used as an attempt to instruct, to direct, to supervise or to control these personnel in the performance of the contract. The role of the monitor is to monitor, assess and evaluate not to manage the contractor's effort.~~

~~2. Documenting Evaluation/Assessment~~

~~Evaluations and assessments conducted and discussions with contractor personnel may be documented as follows:~~

~~3. Evaluation/Assessment Reports~~

~~Monitors may prepare a formal Performance Monitor Report in accordance with the following instructions and submit it to the PEB. (Specify format, frequency of submission and minimum information requirements)~~

~~4. Verbal Reports~~

~~Monitors need to be prepared to make verbal reports of their evaluations and assessments as required by the PEB Chair.~~

END

32 Appendix - Incentive Contracts Guide Revised 4/2021/2021

1. Introduction

The purpose of this guide is to further explain incentive contracts, provide examples, and other considerations for using incentive contracts. This guide:

- ☐ Provides general guidance on when an incentive contract may be appropriate;
- ☐ Describes elements of the required cost incentive and how the elements influence profit/fee earned by a contractor, depending on the cost incurred;
- ☐ Describes the general characteristics of a performance incentive and delivery incentive;
- ☐ Provides general guidance for structuring multiple (i.e., having a cost incentive and performance and/or delivery incentives) incentive contracts;
- ☐ Provides general guidance on Fixed-Price Incentive (FPI) contracts including the importance of the Point of Total Assumption (PTA);
- ☐ Provides general guidance on FPI contracts with a firm target, and FPI with successive targets;
- ☐ Provides general guidance on Cost-Plus-Incentive-Fee (CPIF) contracts including impact of minimum and maximum fee established;
- ☐ Provides general guidance on negotiating changes to incentive contracts including possible negotiation methods and circumstances in which they would be appropriate.

2. General

(a) Incentive contracts are appropriate when supplies or services can be acquired at lower costs, and in certain instances with improved delivery or technical performance, by relating the amount of profit/fee payable under the contract to the contractor's performance. Incentive contracts are designed to obtain specific program objectives by:

(1) Establishing reasonable and attainable targets that are clearly communicated to the contractor; and

(2) Including appropriate incentive arrangements designed to motivate contractor efforts that might not otherwise be emphasized, and to discourage contractor inefficiency.

(b) When predetermined, formula-type incentives on technical performance or delivery are included, profit/fee:

(1) Increases only for achievement that surpasses the targets, and

(2) Decreases to the extent that such targets are not met.

The incentive increases or decreases are applied to performance targets rather than minimum performance requirements.

(c) The two basic categories of incentive contracts are fixed-price incentive and cost-plus-incentive-fee.

(d) Fixed-price incentive contracts are preferred when contract costs and performance requirements are reasonably certain. It is usually in the Government's interest for a contractor to assume substantial cost responsibility and an appropriate share of the cost risk, thus the preference for fixed price incentive contracts.

(e) Award-fee contracts are a separate type of incentive contract and are discussed separately under ~~Appendices 2 and 3~~Appendix G2 of this Section T3.2.4.

3. Cost Incentives

(a) Most incentive contracts include only cost incentives, which take the form of a profit or fee adjustment formula. Cost incentives are intended to motivate the contractor to effectively manage costs. An incentive contract cannot provide for other incentives without also providing a cost incentive (or constraint).

(b) Incentive contracts include a target cost, a target profit or fee, and a profit or fee adjustment formula that provides (within the constraints of a price ceiling or minimum and maximum fee):

(1) Actual cost that meets the target will result in the target profit or fee;

(2) Actual cost that exceeds the target will result in downward adjustment of target profit or fee; and

(3) Actual cost that is below the target will result in upward adjustment of target profit or fee.

(c) An example of a cost incentive (in a fixed-price incentive contract) based on the above is as follows:

Target Cost \$10,000,000
Target Profit \$1,000,000
Target Price \$11,000,000
Share Ratio 70/30 (Government/contractor) Ceiling
Price 115% of Target Cost (\$11,500,000)

Actual cost of \$10,000,000 would meet target cost. This results in the contractor earning the target profit of \$1,000,000 because the contractor met the target cost. \$11,000,00 would be paid to the contractor in total (\$10,000,000 target cost + \$1,000,000 target profit).

Actual cost of \$11,000,000 would exceed target cost. This results in the contractor being responsible for its share of 30% of the amount over the target cost ($\$1,000,000 \times 30\% = \$300,000$). This amount of \$300,000 is deducted from the target profit of \$1,000,000 for a total of \$700,000 profit. Instead of being paid a total of \$11,700,000, the contractor would be paid \$200,000 less because of the ceiling price (\$11,500,000) – reducing the profit from \$700,000 to \$500,000.

-Actual cost of \$9,000,000 would be under target cost. This results in the contractor earning an additional 30% of the amount below the target cost ($\$1,000,000 \times 30\% = \$300,000$) in addition to the target cost for a total of \$1,300,000 profit. \$10,300,000 would be paid to the contractor in total.

4. Performance Incentives

(a) Performance incentives may be considered with specific product characteristics (*e.g.*, a missile range, an aircraft speed, an engine thrust, or a vehicle maneuverability) or other specific elements of the contractor's performance. These incentives should be designed to relate profit/fee to a contractor's achievement, compared with specified targets.

(b) When practicable, positive and negative performance incentives should be considered with service contracts for performance of objectively measurable tasks when quality of performance is critical and incentives are likely to motivate the contractor.

(c) Technical performance incentives may be particularly appropriate in major or complex systems, both in development (when performance objectives are known and the fabrication of prototypes for

test and evaluation is required) and in production (if improved performance is attainable and highly desirable to the Government).

(d) Technical performance incentives may involve a variety of specific characteristics that contribute to the overall performance of the end item. Accordingly, the incentives on individual technical characteristics must be balanced so that no one of them is exaggerated to the detriment of the overall performance of the end item.

(e) Performance tests and/or assessments of work performance are generally essential in order to determine the degree of attainment of performance targets. Therefore, the contract must be as specific as possible in establishing test criteria (such as testing conditions, instrumentation precision, and data interpretation) and performance standards (such as the quality levels of services to be provided).

(f) Because performance incentives present complex problems in contract administration, the Contracting Officer (CO) should negotiate them in full coordination with Government technical and pricing specialists.

(g) It is essential that the Government and contractor agree explicitly on the effect that contract changes (*e.g.*, pursuant to the applicable Changes clause) will have on performance incentives.

This will be dealt with in more detail in Section 11 below.

(h) The CO must exercise care, in establishing performance criteria, to recognize that the contractor should not be rewarded or penalized for attainments of Government-furnished components.

(i) *A basic example of a performance incentive is as follows:*

Maintenance Hours per Operational Hour – Total Possible Incentive \$120,000
Minimum Value – 10 hours – 0% of incentive earned
Average Value – 5 hours – 50% of incentive earned (\$60,000)
Maximum Value – 2 hours – 100% of incentive earned (\$120,000)
Penalty if > 10 hours -\$10,000

In the example above, if the contractor failed to meet the minimum value of 10 hours per operational hour, they would not receive any of the possible \$120,000 in incentives. Additionally, a negative incentive of \$10,000 would be deducted from the negotiated value of the contract.

5. Delivery Incentives

(a) Delivery incentives should be considered when improvement from a required delivery schedule is a significant Government objective. It is important to determine the Government's primary objectives in a given contract (*e.g.*, earliest possible delivery or earliest quantity production).

(b) Incentive arrangements on delivery should specify the application of the reward-penalty structure in the event of Government-caused delays or other delays beyond the control, and without the fault or negligence, of the contractor or subcontractor.

(c) *A basic example of a delivery incentive is as follows:*

The total schedule incentive available must be defined in the contract with specifics as to Contract Line Item, Period of Performance etc. as needed. For this example, the total incentive amount available is \$100,000.

Delivery Incentive Milestones:

Positive Incentives

20% of available incentive for completion of Critical Design Review (CDR) at least two (2) weeks ahead of schedule (\$20,000)

20% of available incentive for passing Design Qualification Test (DQT) at least two (2) weeks ahead of schedule (\$20,000)

15% of available incentive for passing site acceptance test at least two (2) weeks ahead of schedule (\$15,000)

45% of available incentive for achieving Initial Operational Capability (IOC) at least two (2) weeks ahead of schedule (\$45,000)

Negative Incentives

20% of available incentive for not achieving completion of Critical Design Review (CDR) on schedule (-\$20,000) 45% for not achieving IOC on schedule (-\$45,000)

The schedule for the milestones as well as what the achievement of each milestone involves must be clearly defined in the contract. For example, if the contractor fails to meet the first milestone, they lose \$20,000 due to the negative incentive. If they do not meet the second, there would be no impact as there is no negative incentive. If they meet the third at least two weeks ahead of schedule, there would be a positive incentive of \$15,000 earned. Meeting the last and most important milestone at least two weeks ahead of schedule would earn \$45,000 for total schedule incentive earnings of \$40,000.

6. Structuring Multiple-Incentive Contracts

A properly structured multiple-incentive arrangement should-

(a) Motivate the contractor to strive for outstanding results in all incentive areas; and

(b) Compel trade-off decisions among the incentive areas, consistent with the Government's overall objectives for the acquisition. Because of the interdependency of the Government's cost, the technical

performance, and the delivery goals, a contract that emphasizes only one of the goals may jeopardize control over the others. Because outstanding results may not be attainable for each of the incentive areas, all multiple-incentive contracts must include a cost incentive (or constraint) that operates to preclude rewarding a contractor for superior technical performance or delivery results when the cost of those results outweighs their value to the Government.

(c) While not requiring as much administrative effort as an award fee contract, an incentive contract with multiple incentives requires some administrative effort to track how the contractor is performing in relation to the cost incentive and to the performance and/or delivery incentive. Before entering into a multiple incentive contract, Agencies must determine whether the amount of additional administrative effort is offset by potentially improved performance by the Contractor.

(d) *A basic example of a multiple incentive contract is as follows (applicable to either Fixed-Price Incentive or Cost-Plus-Incentive-Fee):*

Target Cost \$100
Target Profit (Fee) \$7
Target Price \$107
Share Ratio 75/25
Performance Incentive Reward +\$3
Performance Incentive Penalty -\$1
Schedule Incentive Penalty -\$1

Cost of \$84 and maximum performance on schedule – profit is \$14 (\$16 under Target cost X 25% share = \$4 + \$7 Target Profit +\$3 Performance Incentive Reward).

Cost of \$116 and acceptable performance with late delivery – profit is \$2 (\$16 over Target Cost X 25% share = \$4 subtracted from \$7 = \$3 less \$1 Schedule Incentive Penalty)

Cost of \$116 and maximum performance with late delivery – profit is \$5 (\$16 over Target Cost X 25% share = \$4 subtracted from \$7 = \$3 less \$1 Schedule Incentive Penalty plus \$3 Performance Incentive Reward)

7. Fixed-Price Incentive (FPI) Contracts

(a) *Description.* A FPI contract is a fixed-price contract that provides for adjusting profit and establishing the final contract price by application of a formula based on the relationship of total final negotiated cost to total target cost. The final price is subject to a price ceiling, negotiated at the outset.

(b) *Application.* A FPI contract is appropriate when-

(1) A FFP contract is not suitable;

(2) The nature of the supplies or services being acquired and other circumstances of the acquisition are such that the contractor's assumption of a degree of cost responsibility will provide a positive profit incentive for effective cost control and performance; and

(3) If the contract also includes incentives on technical performance and/or delivery, the performance requirements provide a reasonable opportunity for the incentives to have a meaningful impact on the contractor's management of the work.

(c) *Billing prices.* In FPI contracts, billing prices are established as an interim basis for payment. These billing prices may be adjusted, within the ceiling limits, upon request of either party to the contract, when it becomes apparent that final negotiated cost will be substantially different from the target cost.

(d) *Point of Total Assumption.* The Point of Total Assumption (PTA) in FPI contracts is the point where cost increases that exceed the target cost are no longer shared by the Government according to the share ratio. At the PTA, the contractor's profit is reduced one dollar for every additional dollar of cost. The PTA is calculated as follows:

$$PTA = (\text{Ceiling Price} - \text{Target Price}) / \text{Government Share} + \text{Target Cost}$$

An example of a PTA calculation is as follows:

Target Cost \$50,000,000
Target Profit \$4,500,000 (9%)
Target Price \$54,500,000
Ceiling Price 125% of Target Cost = \$62,500,000
Share Ratio 70/30

$$PTA = (\$62,500,000 - \$54,500,000) / 70\% + \$50,000,000$$

$$PTA = \$8,000,000 / 70\% + \$50,000,000$$

$$PTA = \$11,428,571 + \$50,000,000 = \$61,428,571$$

Thus, cost increases beyond the PTA of \$61,428,571 are no longer shared by the Government in accordance with the share ratio – the contractor's profit will be reduced one dollar for every additional dollar of cost beyond the PTA.

(e) *General Considerations:*

(1) The higher the Government share and the higher the ceiling price, the lower the overall incentive for the contractor to control costs since they have more ability to recover such costs; and

(2) Conversely, the lower the Government share and the lower the ceiling price, the higher the overall incentive for the contractor to control costs since they have less ability to recover such costs

8. Fixed-Price Incentive (Firm Target)

(a) *Description.* A fixed-price incentive (firm target) contract specifies a target cost, a target profit, a price ceiling (but not a profit ceiling or floor), and a profit adjustment formula. These elements are all negotiated at the outset. The price ceiling is the maximum that may be paid to the contractor, except for any adjustment under other contract clauses. When the contractor completes performance, the parties negotiate the final cost, and the final price is established by applying the formula. When the final cost is less than the target cost, application of the formula results in a final profit greater than the target profit; conversely, when final cost is more than target cost, application of the formula results in a final profit less than the target profit, or even a net loss. If the final negotiated cost exceeds the price ceiling, the contractor absorbs the difference as a loss. Because the profit varies inversely with the cost, this contract type provides a positive, calculable profit incentive for the contractor to control costs.

(b) *Applicability:* A fixed-price incentive (firm target) contract is appropriate when the parties can negotiate at the outset a firm target cost, target profit, and profit adjustment formula that will provide a fair and reasonable incentive and a ceiling that provides for the contractor to assume an appropriate share of the risk. When the contractor assumes a considerable or major share of the cost responsibility under the adjustment formula, the target profit should reflect this responsibility.

(c) *Limitations.* This contract type may be used only when-

- (1) The contractor's accounting system is adequate for providing data to support negotiation of final cost and incentive price revision; and
- (2) Adequate cost or pricing information for establishing reasonable firm targets is available at the time of initial contract negotiation.

(d) *Contract schedule.* The CO should specify in the contract schedule the target cost, target profit, and target price for each item subject to incentive price revision. Following the completion of performance, the parties negotiate the final cost, and the final price is established by applying the formula.

(e) *An example of a Fixed-Price Incentive (Firm Target) contract is under Section 7 above.*

9. Fixed-Price Incentive (Successive Targets) Contracts

(a) *Description.*

(1) A fixed-price incentive (successive targets) contract specifies the following elements, all of which are negotiated at the outset:

- (i) An initial target cost.
- (ii) An initial target profit.

(iii) An initial profit adjustment formula to be used for establishing the firm target profit, including a ceiling and floor for the firm target profit. (This formula normally provides for a lesser degree of contractor cost responsibility than would a formula for establishing final profit and price.)

(iv) The production point at which the firm target cost and firm target profit will be negotiated (usually before delivery or shop completion of the first item).

(v) A ceiling price that is the maximum that may be paid to the contractor, except for any adjustment under other contract clauses providing for equitable adjustment or other revision of the contract price under stated circumstances.

(2) When the production point specified in the contract is reached, the parties negotiate the firm target cost, giving consideration to cost experience under the contract and other pertinent factors. The firm target profit is established by the formula. At this point, the parties have two alternatives, as follows:

(i) They may negotiate a firm fixed price, using the firm target cost plus the firm target profit as a guide.

(ii) If negotiation of a firm fixed price is inappropriate, they may negotiate a formula for establishing the final price using the firm target cost and firm target profit. The final cost is then negotiated at completion, and the final profit is established by formula, as under the fixed-price incentive (firm target) contract.

(b) *Application.* A fixed-price incentive (successive targets) contract is appropriate when-

(1) Available cost or pricing information is not sufficient to permit the negotiation of a realistic firm target cost and profit before award;

(2) Sufficient information is available to permit negotiation of initial targets; and

(3) There is reasonable assurance that additional reliable information will be available at an early point in the contract performance so as to permit negotiation of either (i) a firm fixed price or (ii) firm targets and a formula for establishing final profit and price that will provide a fair and reasonable incentive. This additional information is not limited to experience under the contract, itself, but may be drawn from other contracts for the same or similar items.

An example of a situation where this contract type may be appropriate is where long lead time requirements may make it necessary in the acquisition of a new system to contract for a follow-on quantity before design or production stability has been achieved.

(c) *Limitations.* This contract type may be used only when-

(1) The contractor's accounting system is adequate for providing data for negotiating firm targets and a realistic profit adjustment formula, as well as later negotiation of final costs; and

(2) Cost or pricing information adequate for establishing a reasonable firm target cost is reasonably expected to be available at an early point in contract performance.

(d) *Contract schedule.* The CO should specify in the contract schedule the initial target cost, initial target profit, and initial target price for each item subject to incentive price revision.

(e) Overall considerations for the use of fixed-price incentive (successive targets) are as follows:

(1) Successive targets are used when uncertainties do not permit the negotiation of a firm arrangement;

(2) The ability to establish a firm pricing arrangement is not limited by the availability of cost or pricing data from the contract itself.

(3) Data may be drawn on as it becomes available from other contracts for the same or similar equipment/services; and

Because this type of contract is negotiated when cost and pricing information is not sufficient to allow negotiation of a firm arrangement, contract performance uncertainties are greater than they would otherwise be the case in a fixed-price type of contract. A realistic pricing arrangement would thus not provide as great a degree of contractor cost responsibility as under a FPI contract.

A basic example of a Fixed-Price Incentive (Successive Targets) contract is as follows:

Initial Target Cost	\$15,000,000
Initial Target Profit	\$1,200,000
Initial Target Price	\$16,200,000
Initial Share Ratio	95/5

Ceiling on Firm Target Profit \$1,350,000

Floor on Firm Target Profit \$1,050,000

Price Ceiling \$19,500,000

At the production point in the contract, if the cost is \$14,500,000, the firm target profit would be determined as follows:

Initial Target Cost \$15,000,000

Negotiated Cost \$14,500,000

Difference \$500,000 (decrease) Contractor's Share

\$25,000 (increase) Initial Target Profit \$1,200,000

Firm Target Profit \$1,225,000

At this point, there are two alternatives: Using the negotiated cost of \$14,500,000 and the firm target profit as guides, a firm-fixed-price may be negotiated. If this is not possible, or if the parties agree that uncertainties under the remaining part of the contract make this unfeasible, a fixed-price incentive with firm targets may be negotiated. The ceiling price cannot be

increased at this point but it may be *decreased* where firm target costs are lower than initial target costs. With a revised ceiling price of \$16,700,000 and a new share ratio of 60/40 negotiated, the following is established:

Target Cost	\$14,500,000
Target Profit	\$1,225,000
Target Price	\$15,725,000

Ceiling Price \$16,700,000
Share Ratio 60/40

The final settlement at contract completion would be done as for the firm target contract described in Section 8.

If the parties negotiated an estimated cost of \$17,000,000 at the production point, firm target profit would be determined as follows:

Initial Target Cost	\$15,000,000
Negotiated Cost	\$17,000,000
Difference	\$2,000,000 (increase)
Contractor's Share	\$100,000 (decrease) Initial
Target Profit	\$1,200,000
Firm Target Profit	\$1,100,000

If a FFP contract was not appropriate, and a sharing formula of 75/25 were negotiated, a firm incentive agreement could be set up as follows:

Target Cost	\$17,000,000
Target Profit	\$1,100,000
Target Price	\$18,100,000
Ceiling Price	\$19,500,000
Share Ratio	75/25

10. Cost-Plus-Incentive-Fee (CPIF) Contracts

(a) *Description.* The CPIF contract is a cost-reimbursement contract that provides for the initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs. This contract type specifies a target cost, a target fee, minimum and maximum fees, and a fee adjustment formula. Unlike FPI contracts, there is no ceiling price under this contract type.

After contract performance, the fee payable to the contractor is determined in accordance with the formula. The formula provides, within limits, for increases in fee above target fee when total allowable costs are less than target costs, and decreases in fee below target fee when total allowable costs exceed target costs. This increase or decrease is intended to provide an incentive for the contractor to manage the contract effectively. When total allowable cost is greater than or less than the range of costs within which the fee-adjustment formula operates, the contractor is paid total allowable costs, plus the minimum or maximum fee.

(b) *Application.*

(1) A CPIF contract is appropriate for services or development and test programs when:

(i) A cost-reimbursement contract is necessary where uncertainties in the work under contract make a FPI contract impracticable; and

(ii) A target cost and a fee adjustment formula can be negotiated that are likely to motivate the contractor to manage effectively.

(2) The contract may include technical performance incentives when it is highly probable that the required development of a major system is feasible and the Government has established its performance objectives, at least in general terms. This approach also may apply to other acquisitions, if the use of both cost and technical performance incentives is desirable and administratively practical.

(3) The fee adjustment formula should provide an incentive that will be effective over the full range of reasonably foreseeable variations from target cost. If a high maximum fee is negotiated, the contract must also provide for a low minimum fee that may be a zero fee or, in rare cases, a negative fee.

(c) *Limitations.* No CPIF contract shall be awarded unless the contractor has an adequate accounting system for that type of contract.

(d) Additional considerations for use of this contract type are as follows: Because of the interrelationship between negotiated fee levels and the sharing arrangement, the wider the range between minimum and maximum fees, the greater the contractor's share percentage under the formula without limiting the range of cost variation over which the incentive is effective.

Examples of a CPIF contract are as follows:

Target Cost \$10,000,000
Target Fee \$750,000
Maximum Fee \$1,350,000
Minimum Fee \$300,000
Share Ratio 85/15

(1) Actual cost of \$10,000,000 results in the contractor earning the target fee of \$750,000 since the contractor has met the target cost. \$10,750,000 would be paid to the contractor in total.

(2) Actual cost of \$11,000,000 above the target cost results in the contractor being responsible for 15% of the amount over cost (\$150,000) which is deducted from the target fee for a total of \$600,000 fee. This is within the minimum and maximum fee limits specified above.

(3) Actual cost of \$9,000,000 below the target cost results in the contractor earning an additional \$150,000 in fee above the target fee (\$900,000). This is within the minimum and maximum fee limits specified above.

11. Impact of Contract Changes

When work required under a contract is changed under the “Changes” clause or other appropriate clause of an incentive contract – either increased or decreased – adjustments may be negotiated to the target cost, target fee, share ratio, etc. as appropriate. Performance and/or schedule incentives may also be similarly renegotiated. Since late definitizations of contract changes can adversely affect the integrity of the incentive contract structure, agreements on the pricing and incentive aspects of contract changes should be negotiated as soon as possible.

Four possible methods of making equitable adjustments to incentive contracts are as follows: (a) Constant dollar – where the same dollar adjustment is applied to target, maximum and minimum fee or profit and ceiling price;

(b) Constant percentage – where the percentage of minimum and maximum fee or the percentage of ceiling price over target cost is held constant. The constant dollar and constant percentage methods are similar except for differences in fee/profit earned at the extremes of ranges above or below the target cost;

(c) Individual element – determining the effect of the change on each element such as target cost, target fee, and ceiling price individually. This is appropriate where the degree of uncertainty varies significantly between the original contract and the changed portion. There is a flexibility to tailor the specifics of the incentive to the change; however, the disadvantage is that more administrative effort is often needed to evaluate and negotiate each individual element; and

(d) Severable change – where the change is isolated from the incentive provisions with a separate agreement reached on the change portion. This method is most appropriate where the changed portion is completely different in terms of technical and cost risk than the original contract. For instance, the contract may be CPIF while the new work may be FPI.

Overall, the method chosen depends on the extent and nature of the change as well as its impact upon the individual incentive contract elements.

Section Revised: T3.3.1 – Contract Funding, Financial & Payment

Procurement Guidance - (~~7/2021~~9/2021)

T3.3.1 - Contract Funding, Financing & Payment Revised 8/2009

A Contract Funding, Financing & Payment

- 1 Contract Funding Revised 7/2013
- 2 Continuing Resolution Revised 10/2007
- 3 Electronic Funds Transfer Revised 1/2021
- 4 System for Award Management (SAM) Revised ~~9/2020~~9/2021
- 5 Types of Payment Revised 9/2020
- 6 Single and Partial Payments Revised 9/2020
- 7 Progress Payments Revised 10/2007
- 8 Recurring, Provisional, and Advance Payments Revised 9/2020
- 9 Performance-based Payments Revised 4/2017
- 10 Financing Payment Revised 10/2010
- 11 Withholding Payment Added 10/2007
- 12 Prompt Payment Revised ~~4/2021~~9/2021
- 13 Fast Payment Added 10/2007
- 14 Invoices Revised 1/2021
- 15 Electronic Payment Requests -Invoices (eInvoicing) Revised 1/2021
- 16 Debt Collection Revised ~~4/2021~~9/2021
- 17 Assignment of Claims Revised ~~4/2021~~9/2021
- 18 Automatic Deobligation Revised 1/2021
- 19 Incremental Funding for Fixed-Price Contracts Revised 1/2021

B Clauses

~~C Forms~~ Revised 4/2006

~~D Appendix~~ Added 10/2007

~~1 Appendix – Sample Notice of Assignment~~ Added 10/2007

C Procurement Forms Revised 9/2021

D Procurement Samples Revised 9/2021

E Procurement Templates Added 9/2021

F Procurement Tools and Resources Added 9/2021

T3.3.1 - Contract Funding, Financing & Payment Revised 8/2009

A Contract Funding, Financing & Payment

1 Contract Funding Revised 7/2013

a. *Anti-Deficiency Act.* The FAA must comply with the Anti-Deficiency Act (31 U.S.C. 1341) and all other fiscal laws. The Anti-Deficiency Act prohibits FAA from creating or authorizing an obligation in excess of the funds available, or in advance of appropriations, unless otherwise authorized by law. The Act applies to all forms of procurement, including contracts and purchase card transactions.

b. *Funds Availability.* Before executing a contractual instrument that obligates funds, the Contracting Officer (CO) must ensure sufficient funds are available. The CO must obtain written assurance from the program/requisitioning office that funds are available.

c. *Awards Subject to Availability of Funds.* There may be times when a contract will be awarded before funds become available, such as an award for services to begin at the beginning of the next fiscal year. When this occurs, the contractor must be put on notice that the award is subject to the availability of funds; the CO must incorporate AMS Clause 3.3.1-10, Availability of Funds, or AMS Clause 3.3.1-11, Availability of Funds for the Next Fiscal Year, into the SIR or contract.

d. *Services Crossing Fiscal Years.* The FAA may enter into contracts for severable services for a period that begins in one fiscal year and ends in the next fiscal year if (without regard to any option to extend the period of the contract) the contract period does not exceed one year.

e. *Distribution to Accounting Office.* The CO should provide copies of all contract awards and modifications to the accounting office to ensure that it can properly document and track payments and available funding.

f. *Timely Deobligation of Unused Funds.* The CO and program office are encouraged to periodically review the funding allocated to each contract or order upon the completion of each contract period, option period or upon completion of a contract line item. The review is intended to determine whether contract line items contain unused funds that can be deobligated. Determining whether funds can be deobligated as soon as possible after each contract period or completion of contract line items helps minimize costs associated with contract administration and the contract closeout processes. Timely deobligation of unused funds also allows for the possible use of those funds elsewhere.

2 Continuing Resolution Revised 10/2007

a. *Description.* A continuing resolution (CR) is a type of appropriations legislation to temporarily fund Government operations and programs when a formal appropriation bill(s) has not been signed into law before the start of a new fiscal year. A CR funds existing operations and programs at current or reduced levels for a stated period of time. The stated period time could range from

several weeks to many months. Generally, a CR funds only on-going operations, and does not fund new initiatives or expanded scope for existing programs.

b. *Subject to the Availability of Funds and CR.* To allow for the solicitation of requirements before funds becoming available, the CO may issue a SIR with clauses that expressly condition FAA's obligation under the contract upon the availability of funds. (See Contract Funding above for more information).

c. *Coordination.* To ensure available funding is not exceeded and to comply with conditions under a CR, the CO should consult with:

(1) Legal Counsel. Legal counsel's review a proposed procurement action will ensure that award complies with CR conditions;

(2) Budget and Finance. To ensure that procurement activity complies with FAA's overall budget allowance during a CR, the CO should consult with the budget or finance office or review any fiscal or CR guidance before award; and

(3) Program Office. Because a CR affects the overall operations and planning of FAA programs, the CO should coordinate with the program office to ensure that an award is within their available budget.

3 Electronic Funds Transfer Revised 1/2021

a. Electronic Funds Transfer (EFT) applies to all new contract awards and contract modifications executed, unless extenuating circumstances exist as described below.

b. The FAA will protect against improper disclosure of a contractor's EFT information.

c. 31 U.S.C. 3332 requires all payments to be made through EFT. The Manager, ESC Financial Services Division, AMK-300, may determine that submission of EFT information is not required and grant an EFT waiver if a vendor meets one of the exceptions listed below:

(1) Contracts awarded by COs outside the United States and Puerto Rico may provide for payment by other than EFT when EFT payments are not supported by the foreign country. EFT payment may still be used, if the political, financial and communications infrastructure in the foreign country supports payment by EFT or payments in other than U.S. currency may be made safely;

(2) Contracts paid in other than U.S. currency may provide for payment by other than EFT. EFT payment may still be used, if the political, financial and communications infrastructure in the foreign country supports payment by EFT or payments in other than U.S. currency may be made safely;

(3) Classified contracts when EFT payments could compromise the safeguarding of classified information or national security, or where arrangements for appropriate EFT payments would be impractical due to security considerations;

(4) Contracts executed by deployed COs in the course of military operations, including but not limited to, contingency operations as defined in 10 U.S.C. 101(a)(13) where:

(a) EFT payment is not known to be possible; or (b) EFT payment would not support the objectives of the operation.

(5) Contracts executed by any CO conducting emergency operations, such as responses to natural disasters or national or civil emergencies, may provide for payments by other than EFT where:
(a) EFT payment is not known to be possible; or (b) EFT payment would not support the objectives of the operation.

(6) When FAA does not expect to make more than one payment to the same recipient within a one-year period and the payment is non-recurring;

(7) When FAA's need for goods or services is of such unusual and compelling urgency that FAA would be seriously injured unless payment is made by a method other than EFT;

(8) Contracts where the contractor claims that payment by EFT would impose a hardship due to a mental disability or a geographic barrier.

d. *Waiver requests.* The ESC Financial Services Division will review and approve or disapprove all vendor requests for exceptions to the EFT payment requirement. The waiver process for EFT payments is:

(1) The CO provides the applicable EFT clauses as part of the solicitation package.

(2) If the otherwise successful offeror claims an inability to comply with the EFT requirement, the CO requests that vendor complete an Electronic Funds Transfer (EFT) Waiver Request Form (see AMS Procurement Forms). The waiver request includes the contractor's justification for not receiving payment by EFT. The CO forwards the waiver request, together with a recommendation and the completed DELPHI Vendor Entry Worksheet (see the PRISM website (FAA only) to the ESC Financial Services Division, AMK-300.

(3) The ESC Financial Services Division approves or disapproves the waiver in writing and returns the signed determination to the CO. The waiver determination includes recommendations to assist the vendor become capable of receiving EFT payments. The CO retains a copy of the waiver request disposition in the contract file.

(4) If the waiver is disapproved, the CO may consult with the Accounts Payable manager for further guidance.

4 System for Award Management (SAM) Revised 9/2020/2021

a. System for Award Management (SAM) applies to all new contract awards, contract modifications, agreements, orders, or leases executed. SAM is the primary Government repository for contractor information required for doing business with the Government. SAM requires a Data Universal Numbering System (DUNS) number for registration. The DUNS is the 9-digit number assigned by Dun and Bradstreet, Inc. (D&B) to identify unique business entities. Data Universal Numbering System +4 (DUNS +4) number means the DUNS number assigned by D&B plus a 4-character suffix that may be assigned by a business concern. This 4-character suffix may be assigned at the discretion of the business concern to establish additional SAM records for identifying alternative Electronic Funds

Transfer (EFT) accounts for the same parent concern. Registered in the SAM database means that the contractor has entered all mandatory information, including the DUNS number or the DUNS +4 number, into the SAM database.

b. Prospective contractors must be registered in the SAM database before award of a contract or agreement, except for:

(1) Purchases made by using a Government purchase card;

(2) Classified contracts when registration in the SAM database, or use of SAM data, could compromise the safeguarding of classified information or national security;

(3) Contracts awarded by:

(a) Deployed COs in the course of military operations, including, but not limited to, contingency operations as defined in 10 U.S.C. 101(a)(13) or humanitarian or peacekeeping operations as defined in 10 U.S.C. 2302(7); or

(b) COs conducting emergency operations, such as responses to natural or environmental disasters or national or civil emergencies, e.g., Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121);

(4) Contracts to support unusual or compelling needs. A compelling need is where FAA would be seriously injured if the contract is not awarded;

(5) Awards made to foreign vendors for work performed outside the United States, if it is impractical to obtain SAM registration;

(6) One time/single payment contracts or agreements, such as Real Property purchase and sales agreements, where the seller of the property is not in the practice of offering real property to FAA as a commercial practice and does not anticipate acting as a vendor to FAA in the foreseeable future; or

(7) Long term leases and utility contracts where a SAM clause is not currently in effect and it is determined by the CO that forcing compliance is impractical.

c. In contracts or agreements awarded under paragraph (b) (3) or (4) of this section, the CO should modify the contract or agreement to require SAM registration as soon as practical after award is made.

d. *Change of Name in SAM.*

(1) The contractor must provide the responsible CO a minimum of one business day's written notification of its intention to change its business name in the SAM database, comply with the requirements of a novation or change of name agreement in AMS Procurement Guidance, and agree in writing to the timeline and procedures specified by the responsible CO for the change. The contractor must provide the CO documentation to support the legally changed name. This notification is required when the contractor has:

(a) Legally changed its business name;

(b) Changed its "doing business as" name;

(c) Changed its division name; or

(d) Transferred the assets used in performing the contract, but has not completed the necessary requirements regarding novation and change-of-name agreements in AMS Procurement Guidance.

(2) If the contractor fails to comply with the requirements AMS Clause 3.3.1-33, (Real Property 6.4.1-1), System for Award Management, and has not provided a properly executed novation or change- of-name agreement, the SAM information that shows the contractor to be other than the contractor indicated in the contract will be considered to be incorrect information within the meaning of the "Suspension of Payment" paragraph of AMS Clause 3.3.1-34, (Real Property 6.4.2-1), Payment by Electronic Funds Transfer/System for Award Management. If the contractor's EFT information in SAM is considered to be incorrect:

(a) FAA need not make payment to the contractor until correct EFT information is entered into the SAM database; and

(b) Any invoice or contract financing request must be deemed not to be a proper invoice for the purpose of prompt payment under the contract.

(3) The contractor may not change the name or address for electronic funds transfer payments (EFT) or manual payments, as appropriate, in the SAM record unless an assignment of claims has been properly executed. (See AMS Procurement Guidance T3.3.1, Assignment of Claims)

(4) Assignees must be separately registered in the SAM database. Information provided to the contractor's CCR record that indicates payments, including those made by EFT, to an ultimate recipient other than that contractor will be considered to be incorrect information within the meaning of the "Suspension of payment" paragraph of AMS Clause 3.3.1-34; (Real Property 6.4.2-1), Payment by Electronic Funds Transfer/System for Award Management.

e. Unless the acquisition is exempt, the CO:

(1) Must verify that the prospective contractor is registered in the SAM database before awarding a contract or agreement;

(2) Should use the DUNS number or, if applicable, the DUNS+4 number, to verify registration:

(a) On the SAM website; or

(b) By calling toll-free: 1-888-227-2423, commercial: (269) 961-5757.

(3) When a CO modifies an existing contract or agreement that does not already include the requirement to be registered in SAM, the CO must then incorporate, as appropriate, AMS Clause 3.3.1-33, System for Award Management.

(4) Need not verify registration before placing an order or call if the contract or agreement includes the clause at AMS Clause 3.3.1-33; (Real Property 6.4.1-1).

f. If the CO, when awarding a contract or agreement, determines that a prospective contractor is not registered in SAM and an exception to the registration requirements for the award does not apply, the CO:

(1) Determines if the needs of the requiring activity allow for a delay. If a delay is allowable, the CO advises the apparently successful offeror of the required date to become registered. If the offeror does not become registered by the required date, the CO, after consultation with the program office, proceeds to award to the next otherwise successful registered offeror following the same procedures (i.e., if the next apparently successful offeror is not registered, the CO must advise the offeror of the required date to become registered, etc.); or

(2) Determines if the needs of the requiring activity do not allow for a delay. If the needs do not reasonably allow for a delay, the CO will proceed to award to the next otherwise successful registered offeror. Written approval is required at one level above the CO.

g. The FAA must protect against improper disclosure of contractor SAM information.

h. In accordance with FAA procedures, the CO provides the DUNS number or, if applicable, the DUNS +4 on contractual documents transmitted to the payment office.

5 Types of Payment Revised 9/2020

a. *Types of Payments for Products, Services, and Construction*

- (1) Payment provisions should balance protection of FAA's interests against adequately compensating the contractor for products delivered or services performed, including construction.
- (2) COs should maintain a payment log for each contract detailing funding and payment information, i.e., a log showing available funding, date and amount of invoices, balance of funding after payments, etc). This log should be filed in the official contract file.
- (3) COs should consider the following alternatives when establishing a basis for payment in award documents:

Type of Payment	Description
Single Payment (Lump Sum)	Where one payment is made to a contractor after completion and acceptance of all work. (Preferred method)
Partial Payment	Payments authorized to be made upon acceptance of one or more complete units (or one or more distinct items of service) called for under a contract.
Progress Payment	Multiple payments made prior to delivery during performance based on a percentage or stage of completion.
Recurring Payment	Payments made on a fixed, periodic basis for the delivery or performance of recurring firm fixed-price products or services.
Provisional Payment	Payments made for the delivery or performance of products or services recurring under a contract.
Advance Payment	Payment made before any performance of work under the contract. Payment should be secured by bond or collateral with expenditures made from a joint account requiring FAA approval. Considered to be contract financing, advance payments are the least preferred and must be authorized sparingly.
Performance-Based Payment	Contract financing payments that are not payments for accepted items.
Financing Payment	Payment to a contractor prior to acceptance of products or services by FAA. Contract financing includes advance payments. FAA may only use the methods for financing of contractor working capital.

b. *Type of Payment for Real Property*

COs should consider the following alternatives when establishing a basis for payment in real property award documents:

Type of Payment	Description
Single Payment (Lump Sum)	Where one payment is made to a contractor after completion and acceptance of all work. (Preferred method)
Recurring Payments (Automatic Payments)	Payments made on a fixed, periodic basis for the delivery or performance of recurring firm fixed-price products or services.

6 Single and Partial Payments Revised 9/2020

a. *Single Payments (Lump Sum).*

- (1) Where one payment is made to a contractor after completion and acceptance of all work or delivery of real property interest.
- (2) The preferred method as FAA only makes payment after acceptance of all contract work (minimal risk).

b. *Partial Payments.*

- (1) Payments authorized to be made upon acceptance of one or more complete units (or one or more distinct items of service) called for under a contract.
- (2) Despite partial payments being generally treated as a method of payment rather than a method of contract financing, the use of partial payments can provide the assistance necessary for some contractors to participate in FAA contracts.
- (3) Circumstances where partial payments should be prohibited include:
 - (a) When the additional administrative time required to issue 2 or more payments may not be cost effective.
 - (b) When partial delivery of individual components does not constitute a usable item on its own.

7 Progress Payments Revised 10/2007

a. *Definition.* Progress payments consist of multiple payments made during performance and prior to delivery based on a percentage or stage of completion. Payments must be secured against materials/equipment purchased until liquidated by deliveries under the contract.

b. *Basis.* FAA will make progress payments on the basis of percentage or stage of completion. Typical progress payment provisions call for payment of part of the contract price only when a completed stage of work (milestone) or a completed component can be said to be of value to FAA in the event the contract were to be terminated at that point; however, progress payment schedules can be established that will allow payment based on an estimated percentage of completion. Generally, the progress payment rate to the prime contractor is 80% of the total costs of performing the contract and 85% for small businesses. The CO should provide for progress payments if the contractor:

- (1) Will not be able to bill for the first delivery of products, or other performance milestones, for a substantial time after work is scheduled to begin; and
- (2) Will make expenditures for contract performance during the pre-delivery period that have a significant impact on the contractor's working capital.

c. *Withholding payment.* When there is reason to doubt the amount of a progress payment request, only the doubtful amount should be withheld, subject to later adjustment after review or audit. Any clearly proper and due amounts should be paid without awaiting resolution of the differences. Post payment reviews may be made when considered desirable by the CO to determine the validity of progress payments already made and those expected to be made in the future. The post payment review should include a review of whether or not the unpaid balance of the contract price will be adequate to cover the anticipated cost of completion.

d. *Subcontracts.* The CO should encourage contractors to provide progress payments to subcontractors subject to the bases described in subparagraph (b), "Basis." The CO should consider the following when contractors submit payment requests that include progress payments for subcontractors:

- (1) The contractor's request for payment may include the full amount paid to subcontractors as progress payments;
- (2) The contractor's inclusion of the substance of clause "Progress Payments" in the prime contract, modified to indicate that:
 - (a) The contractor, not FAA, awards the subcontract and administers the progress payments;
 - (b) Title will vest in FAA, not the contractor;
 - (c) The subcontractor will install the necessary management control systems, including internal audit procedures; and
 - (d) The subcontractor will allow the CO/FAA access to reports and records.

The CO should, to the extent appropriate, review the subcontract as part of the overall administration of progress payments in the prime contract.

(3) If the contractor makes progress payments to a subcontractor under a cost- reimbursement prime contract, the CO may accept the progress payments as reimbursable costs of the prime contract only under the following conditions:

(a) The payments are made in accordance with this subparagraph (d),
"Subcontracts;"

(b) The subcontractor complies with relevant liquidation principles;

(c) The subcontract contains progress payments terms as defined in this section;
and

(d) The subcontractor has established a FAA-approved job cost accounting system that is satisfactory for cost reimbursement contracts.

(4) If there is adequate protection to FAA through inclusion of appropriate clauses in subcontracts involving foreign subcontractor.

8 Recurring, Provisional, and Advance Payments Revised 9/2020

a. *Recurring Payments (Automatic Payments)*. Payments made on a fixed, periodic basis for the delivery or performance of recurring firm fixed-price products, services, or real property.

(1) COs must annotate on the award that payments are to be setup on the Recurring Invoice Template (auto pay).

(2) The CO must request an annual invoice from the contractor detailing the recurring fixed amount and the total amount. This annual invoice must be certified by the CO and submitted to accounting.

(3) If deductions are required, the CO must notify the accounting office in writing of the deduction to be made the following month, and the contract will be modified to reflect the change in value.

b. *Provisional Payments*. Payments made for the delivery or performance of products or services recurring under a contract. Invoices are necessary, receiving reports are not.

c. *Advance Payments*. Payment made before any performance of work under the contract. Payments should be secured by bond or collateral with expenditures made from a joint account requiring FAA approval. (See Finance under this section for more information)

9 Performance-based Payments Revised 4/2017

a. *General.*

(1) Performance-based payments (PBP) are contract financing payments that are not payments for accepted items. The CO may use PBP in contracts, subject to the guidelines below, when the CO finds them practical and the contractor agrees to their use. (2) PBP do not apply to the following:

- (a) Payments under cost-reimbursement contracts;
- (b) Contracts for architect-engineer services or construction, when the contracts provide for progress payments based upon a percentage or stage of completion;
- (c) Contracts for research or development; or
- (d) Contracts awarded through sealed bid.

(3) PBP are fully recoverable, in the same manner as progress payments, in the event of default. PBP should not be used when other forms of contract financing are provided.

(4) For accounting purposes, PBP should be treated like progress payments based on costs.

(5) Because PBP are contract financing payments they are not subject to the interest-penalty provisions of prompt payment clauses; however, PBP should be made in accordance with FAA's policy for prompt payment of contract financing payments.

b. *Criteria for use.*

(1) PBP should be used only if the following conditions are met:

- (a) The CO and offeror are able to agree on the performance-based payment terms;
- (b) The contract is a definitized fixed-price type contract; and
- (c) The contract does not provide for other methods of contract financing.

c. *Application.* The CO should determine if PBP will be made either on a whole contract or deliverable item basis. Financing payments to be made on a whole contract basis are applicable to the entire contract, and not to specific deliverable items. Financing payments to be made on a deliverable item basis are applicable to a specific individual deliverable item.

A deliverable item for these purposes is a separate item with a distinct unit price. Thus, a

contract line item for 10 airplanes, with a unit price of \$1,000,000 each, has ten deliverable items (the separate planes). A contract line item for 1 lot of 10 airplanes, with a lot price of \$10,000,000, has only one deliverable item (the lot).

d. *Establishing Performance Bases.* PBP may be made on any of the following bases:

(1) Specifically described events (e.g., milestones) or some measurable criterion of performance. Each event or performance criterion that will trigger a finance payment will be an integral and necessary part of contract performance and will be identified in the contract, along with a description of what constitutes successful performance of the event or attainment of the performance criterion. The signing of contracts or modifications, the exercise of options, or other such actions will not be events or criteria for performance-based payments. An event need not be a critical event in order to trigger a payment, but successful performance of each such event or performance criterion will be readily verifiable.

(2) Events or criteria may be either severable or cumulative. The successful completion of a severable event or criterion is independent of the accomplishment of any other event or criterion. In contrast, the successful accomplishment of a cumulative event or criterion is dependent upon the previous accomplishment of another event or criterion. A contract may provide for more than one series of severable and/or cumulative performance events or criteria performed in parallel. The following will be included in the contract:

(a) The contract will not permit payment for a cumulative event or criterion until the dependent event or criterion has been successfully completed.

(b) Severable events or criteria will be specifically identified in the contract.

(c) The contract will identify which events or criteria are preconditions for the successful achievement of each cumulative event or criterion.

(d) If payment of performance-based finance amounts is on a deliverable item basis, each event or performance criterion will be part of the performance necessary for that deliverable item and will be identified to a specific contract line item or subline item.

e. *Establishing Performance-based Finance Payment Amounts.*

(1) The CO will establish a complete, fully-defined schedule of events or performance criteria and payment amounts when negotiating contract terms. If a contract action significantly affects the price, or event or performance criterion, the CO responsible for pricing the contract modification will adjust the performance-based payment schedule appropriately.

(2) Total performance-based payments will not exceed 90 percent of the contract price if on a whole contract basis, or 90 percent of the delivery item price if on a delivery item basis. The amount of each performance-based payment will be specifically stated either as a dollar

amount or as a percentage of a specifically identified price (e.g., contract price, or unit price of the deliverable item). The payment of contract financing has a cost to the Government in terms of interest paid by the Treasury to borrow funds to make the payment. Because the CO has wide discretion as to the timing and amount of the performance-based payments, the CO must ensure that the total contract price is fair and reasonable. This fair and reasonable determination must consider all pertinent factors, including the financing costs to the Treasury of the performance-based payments. Performance-based payment amounts may be established on any rational basis determined by the CO or agency procedures, which may include (but are not limited to):

- (a) Engineering estimates of stages of completion;
- (b) Engineering estimates of hours or other measures of effort to be expended in performance of an event or achievement of a performance criterion; or
- (c) The estimated projected cost of performance of particular events.

(3) When subsequent contract modifications are issued, the performance-based payment schedule will be adjusted as necessary to reflect the actions required by those contract modifications.

f. Instructions for Multiple Appropriations. If there is more than one appropriation account (or subaccount) funding payments on the contract, the CO will provide instructions to the payment office for distribution of financing payments to the respective funds accounts. Distribution instructions must be consistent with the contract's liquidation provisions.

g. Liquidating Performance-based Finance Payments. Performance-based amounts will be liquidated by deducting a percentage or a designated dollar amount from the delivery payments. The CO will specify the liquidation rate or designated dollar amount in the contract. The method of liquidation will ensure complete liquidation no later than final payment.

- (1) If the performance-based payments are established on a delivery item basis, the liquidation amount for each line item will be the percent of that delivery item price that was previously paid under performance-based finance payments or the designated dollar amount.
- (2) If the performance-based finance payments are on a whole contract basis, liquidation will be by predesignated liquidation amounts or liquidation percentages.

h. Reviews. The CO is responsible for determining what reviews are required for protection of FAA interests. The CO should consider the contractor's experience, performance record, reliability, financial strength, and the adequacy of controls established by the contractor for the administration of performance-based payments. Based upon the risk to FAA, post-payment reviews and verifications should normally be arranged as considered appropriate by the CO. If considered necessary by the CO, pre-payment reviews may be required.

i. *Incomplete Performance.* The CO will not approve a performance-based payment until the specified event or performance criterion has been successfully accomplished in accordance with the contract. If an event is cumulative, the CO will not approve the performance-based payment unless all identified preceding events or criteria are accomplished.

j. *Government-caused Delay.* Entitlement to a performance-based payment is solely on the basis of successful performance of the specified events or performance criteria. However, if there is a Government-caused delay, the CO may renegotiate the performance-based payment schedule to facilitate contractor billings for any successfully accomplished portions of the delayed event or criterion.

k. *Suspension or Reduction of Performance-based Payments.*

(1) *Enforcing the Clause.*

(a) The Progress Payments clause provides the CO the right to reduce or suspend progress payments, or to increase the liquidation rate under certain conditions; however, the CO should take these actions only in accordance with the contract terms and never precipitately or arbitrarily. These actions should be taken only after:

(i) Notifying the contractor of the intended action and providing an opportunity for discussion;

(ii) Evaluating the effect of the action on the contractor's operations, based on the contractor's financial condition, projected cash requirements, and the existing or available credit arrangements; and

(iii) Considering the general equities of the particular situation.

(b) The CO should take immediate unilateral action only if warranted by circumstances such as overpayments or unsatisfactory contract performance.

(c) In all cases, the CO should:

(i) Act fairly and reasonably;

(ii) Base decisions on substantial evidence; and

(iii) Document the contract file. Findings made under the Progress Payments clause should be in writing.

(2) *Contractor Noncompliance.*

(a) The contractor must comply with all material requirements of the contract. This includes the requirement to maintain an efficient and reliable accounting system and

controls, adequate for the proper administration of progress payments. If the system or controls are deemed inadequate, progress payments should be suspended (or the portion of progress payments associated with the unacceptable portion of the contractor's accounting system should be suspended) until the necessary changes have been made.

(b) If the contractor fails to comply with the contract without fault or negligence, the CO will not take action permitted by Progress Payments clause, other than to correct overpayments and collect amounts due from the contractor.

(3) Unsatisfactory financial condition.

(a) If the CO finds that contract performance (including full liquidation of progress payments) is endangered by the contractor's financial condition, or by a failure to make progress, the CO should require the contractor to make additional operating or financial arrangements adequate for completing the contract without loss to FAA.

(b) If the CO concludes that further progress payments would increase the probable loss to FAA, the CO should suspend progress payments and all other payments until the unliquidated balance of progress payments is eliminated.

(4) Delinquency in payment of costs of performance.

(a) If the contractor is delinquent in paying the costs of contract performance in the ordinary course of business, the CO should evaluate whether the delinquency is caused by an unsatisfactory financial condition and, if so, should apply the guidance in paragraph (c) of this section. If the contractor's financial condition is satisfactory, the CO should not deny progress payments if the contractor agrees to:

- (i) Cure the payment delinquencies;
- (ii) Avoid further delinquencies; and
- (iii) Make additional arrangements adequate for completing the contract without loss to FAA.

(b) If the contractor has, in good faith, disputed amounts claimed by subcontractors, suppliers, or others, the CO should not consider the payments delinquent until the amounts due are established by the parties through litigation or arbitration; however, the amounts should be excluded from costs eligible for progress payments so long as they are disputed.

(c) Determinations of delinquency in making contributions under employee pension, profit sharing, or stock ownership plans, and exclusion of costs for such contributions

from progress payment requests should be in accordance with the procedures for progress payments.

1. *Title.*

(1) The CO must ensure that FAA title under the provisions of the Performance-Based Payments clause is not compromised by other encumbrances. Ordinarily, the CO, in the absence of reason to believe otherwise, may rely upon the contractor's certification contained in the payment request.

(2) If the CO becomes aware of any arrangement or condition that would impair FAA's title to the property affected by the Performance-Based Payments clause, the CO should require additional protective provisions.

(3) The existence of any such encumbrance is a violation of the contractor's obligations under the contract, and the CO may, if necessary, suspend or reduce payments under the terms of the Performance-Based Payments clause covering failure to comply with a material requirement of the contract. In addition, if the contractor fails to disclose an existing encumbrance in the certification, the CO should consult with legal counsel concerning possible violation of 31 U.S.C. 3729, False Claims Act.

m. *Risk of Loss.*

(1) Under the Performance-Based Payments clause, the contractor bears the risk for loss, theft, destruction, or damage to property, except for normal spoilage, affected by the clause even though title is vested in FAA. The clauses related to performance-based payments, default, and terminations do not constitute an assumption of risk by FAA, unless FAA has expressly assumed this risk.

(2) If a loss occurs in connection with property for which the contractor bears the risk, and the property is needed for performance, the contractor is obligated to repay FAA the performance-based payments related to the property.

(3) The contractor is not obligated to pay for the loss of property for which FAA has assumed the risk of loss; however, a serious loss may impede the satisfactory progress of contract performance, so that the CO may need to act under the Performance-Based Payments clause. In addition, while the contractor is not required to repay previous performance-based payments in the event of a loss for which FAA has assumed the risk, such a loss may prevent the contractor from making the certification required by the Performance-Based Payments clause.

10 Financing Payment Revised 10/2010

a. Prudent contract financing can be a useful working tool in FAA acquisitions. FAA financing may be provided only to the extent actually needed for prompt and efficient performance, considering the availability of private financing. Any undue risk of monetary loss to FAA through the financing must be avoided.

b. "Contract financing" is a contractual authorization for payments to a contractor prior to acceptance of products or services by FAA. Contract financing includes advance payments.

c. Contract financing methods are intended to be self-liquidating through contract performance. FAA may only use the methods for financing of contractor working capital, not for the expansion of contractor-owned facilities or the acquisition of fixed assets.

d. Advance payments are the least preferred method of contract financing and must be authorized sparingly. They should be authorized only if partial payments or progress payments are not feasible and private financing is not reasonably available.

(1) Payments under time-and-material or cost-reimbursement contracts made to small businesses in advance of payment to their vendors or subcontractors are not considered advance payments under this subpart. The items authorized for advance payment below do not require additional review and approval, while all others not identified below require submittal to the Chief of the Contracting Office (COCO) for approval:

(a) Rent (leases, and rental agreements, including meeting and lodging room rentals);

(b) Tuition and conference registration fees;

(c) Insurance premiums;

(d) Extension or connection of public utilities for FAA buildings or installations;

(e) Subscriptions to publications - interpreted to include electronic methods of data recording. Software subscription services are therefore authorized;

(f) Purchases of products or services in foreign countries and the advance payment is required by the laws or regulations of the foreign country concerned;

(g) Advance payments to Federal agencies;

(h) Advance payments that do not exceed \$15,000 or an equivalent amount in foreign currency;

(i) Expense of investigations in foreign countries;

(j) Enforcement of the customs or narcotics laws; or

(k) Other types of transactions excluded by agency procedures under statutory authority.

(2) The CO should transmit the following together with a recommendation of approval of a contractor's request for advance payment to the COCO:

(a) A summary of the solicitation or contract requirements;

(b) Comments on the contractor's need for advance payments and potential benefits to FAA from providing advance payments;

(c) CO's proposed actions to minimize FAA's risk of loss including proposed advance payment contract terms; and

(d) Justification of any proposal for waiver of interest charges.

(3) FAA should charge interest on advance payments received in excess of the Contractor's current needs, except for awards made to state governments, or instrumentalities thereof. The interest will be charged at the Department of Treasury current value of funds rate. The COCO may authorize advance payments without interest if in FAA's interest.

(4) Letters of Credit are not authorized at FAA.

(5) Payments will be made by electronic funds transfer whenever possible. The advance financing arrangement may be terminated if the contractor is unwilling or unable to minimize the elapsed time between receipt of the advance and disbursement of the funds. In lieu of termination, the CO will require the contractor to not request FAA funds until the contractor's checks are ready to be forwarded to the payees. Advance payments may be processed as follows:

(a) 30-Day Advance: The contractor is authorized to request, in writing, FAA funds in amounts needed to cover its own disbursements of cash in the next 30 calendar days for contract performance. The contractor's request typically requires 30 calendar days for processing. The 30-day advance is the preferred method of providing advance funds to a contractor.

(b) 3-Day Advance: The contractor is authorized to request FAA funds in amounts needed to cover its own disbursements of cash in the next 3 working days for contract performance. When this payment method is selected, FAA will deposit funds in the contractor's designated account within 3 working days after receipt of the request by the FAA accounting office. This method of providing advance funds to a contractor is the least preferred method and will be used sparingly.

11 Withholding Payment Added 10/2007

a. The CO should not routinely withhold funds from contractor payments. A withholding should be considered only when:

(1) Satisfactory progress has not been achieved by a contractor during any period for which a payment is to be made; or

(2) The CO expects difficulty in the timely and complete receipt of information required by the contract.

b. Withholding should not be used as a substitute for good contract management, and COs should not withhold funds without cause.

c. Decisions to withhold and the specific amount to be withheld must be made by the CO on a case-by-case basis. Such decisions must be based on the CO's assessment of past performance and the likelihood that such unsatisfactory performance will continue.

d. The CO should notify the contractor in writing when withholding funds. The notice should include:

(1) The amount to be withheld;

(2) The specific cause for the withholding; and

(3) Any remedial actions that can be taken by the contractor in order to receive payment of the funds withheld.

e. Generally, the CO should not withhold an amount greater than 10% of the contract value and may withhold only in those specific instances where the CO has determined, in writing, that it is necessary to protect the interests of FAA.

f. Upon completion of all contract requirements, withheld amounts should be promptly released for payment.

12 Prompt Payment Revised ~~1/2021~~ 9/2021

a. *Prompt Payment for Products, Services, and Construction.*

(1) *Discount for Prompt Payment.* The CO is encouraged to include meaningful discounts for prompt payment in contracts whenever possible. Decisions to accept or not accept a prompt payment discount are made by the cognizant accounting office based on the value of the discount offered. There is no minimum time period for which discounts will be taken. Any discount will be taken if determined cost effective by the accounting office.

(2) *Due Date for Payment.* For the sole purpose of computing an interest penalty that might be due the contractor, the CO may establish a period for constructive acceptance of products and services that reflects the minimum necessary for inspection or testing. The period should be within seven (7) days after the contractor has delivered products or performed services in accordance with the terms and conditions of the contract. The CO may negotiate a longer period of acceptance, which must be stated in the contract.

(a) The due date for most invoice payments, (e.g. single [lump sum] payments, partial payments, etc.) will be not later than the 30th day after FAA receives a proper invoice as designated in the contract, or not later than the 30th day after products are delivered or services rendered to FAA acceptance point, whichever is later. Longer due dates may be specified for inspection, demonstrations or timed events.

(i) To the extent practicable, all invoices for contracts with small businesses will be paid not later than the 15th day after receipt of a proper invoice, rather than the 30th day as specified above. This accelerated payment to small businesses does not in any way modify the payment due date (30th day) for applying the Prompt Payment late payment interest penalty provisions as specified in paragraph c. "Interest" below.

(ii) For all new awards, the CO must indicate in PRISM whether the contractor is a small business by checking "Y" or "N" in the respective box. If a contractor is a small business, the accelerated payment terms must also be indicated. For existing awards, Accounting and Contracts will be provided a listing of all existing small business awards converted to accelerated payment.

(iii) On a temporary basis, invoice payments for all contracts are being accelerated to the extent practicable using the same methodology as described under b.(1)(a) above to facilitate the payment of small business subcontractors. AMS Clause 3.3.1-20 "Providing Accelerated Payment to Small Business Subcontractors" is required for all SIRs and contracts. The clause may also be added to existing contracts.

(b) For all progress payments except construction, the due date will be not later than the 30th day after FAA approval of contractor estimates of work or of services accomplished. For the sole purpose of computing interest penalties due the contractor, FAA approval may be deemed to have occurred constructively on the 7th day after the contractor estimates are received with all necessary supporting documentation by FAA.

(c) Progress payments under construction contracts will be due not later than the 14th day after receipt of a proper invoice (including required supporting documentation as designated in the contract). The CO has the discretion to specify a longer period (a period longer than 30 days may not be prescribed) if more time is required to afford FAA a reasonable opportunity to adequately inspect the work and to determine the adequacy of the contractor's performance under the contract.

(d) For payment of any amounts retained by the CO, the due date will be not later than the 30th day after approval by the CO for release to the contractor. There is no provision for constructive acceptance.

(e) Final invoice payments will be due not later than the 30th day after FAA receives a proper invoice in the designated billing office, or not later than the 30th day after FAA acceptance of the work or services, whichever is later. For the contractor's final invoice where the payment amount is subject to contract settlement actions, acceptance should be deemed to have occurred on the effective date of the contract settlement.

(3) *Interest.*

(a) The contractor is entitled to interest penalties if payments are made after the payment due date. The FAA may automatically pay interest without request from the contractor, when all of the following conditions, if applicable, have been met:

(i) A proper invoice as specified in the contract has been received;

(ii) There is no disagreement over quantity, quality, or contractor compliance with any contract requirement;

(iii) In the case of a final invoice, the payment amount is not subject to further contract settlement actions between FAA and the contractor;

(iv) FAA paid the contractor after the due date;

(v) Interest owed is over \$1.00 in value; and

(vi) No off-set action has been filed by an appropriate Federal jurisdiction (such as IRS or DOL).

(b) Interest is not required on payment delays due to:

(i) Defective invoices

(ii) Disagreement between FAA and contractor over payment amount;

(iii) Issues involving contract compliance; or

(iv) Amounts temporarily withheld or retained in accordance with the terms of the contract.

(c) No interest will be paid to the contractor as a result of delayed contract financing payments.

(d) The interest paid will be at the rate established by the Secretary of the Treasury referred to as the "Renegotiation Board Interest Rate."

(e) Interest will not accrue for more than one year.

(4) *Interim Voucher for Time-and-Material, Labor-Hour, and Cost Reimbursement Services.*

(a) Contractors awarded time-and-material (T&M), labor-hour (LH), or cost reimbursement contracts are generally authorized to seek payment during the course of the contract.

(b) An interim voucher is a contractor's request for payment during the course of performance under a T&M, LH, or cost reimbursement contract, but excluding the final payment. Interim vouchers are considered a form of contract financing; however, interest penalties must be paid on late payments for interim vouchers under T&M, LH, or cost reimbursement service contracts.

(c) For purposes of computing late payment interest penalties for interim vouchers, the due date for payment is the 30th day after FAA receives a proper invoice.

(d) If the invoice is found to be improper, it must be returned within 7 days after the ~~date~~FAA~~date~~ FAA receives the invoice.

(5). *Acceptance.* For payment purposes, FAA acceptance must be documented in a timely manner as the goods and/or services are received through the PRISM acceptance process.

When COs create awards in PRISM, they will be required to select whether the invoice matching for payment in DELPHI will be Two (2) or Three (3) Way match. Detailed information on invoice matching and acceptance requirements can be found on the PRISM website.

(a) Three (3) Way match: 3-Way match requires the presence of an award, an invoice, and the acceptance of the good(s) and/or services, by line, in PRISM. The acceptance of the good(s) and/or services in PRISM must annotate the date(s) good(s) were delivered or the services were provided as well as the date(s) of acceptance, where applicable. Most awards will be on a 3-Way match basis except those authorized for a 2-Way match as specified under (b)

(b) Two (2) Way match: 2-Way match requires the presence of an award and invoice without the need for manual acceptance in PRISM, and is authorized for the following types of procurements:

(i) Awards that include Fast Payment procedures;

(ii) Awards for services placed on Recurring Payment; and

(iii) Leases and utilities.

b. Prompt Payment for Real Property

For real property contracts, the FAA should make payments in arrears or as provided in the contract, without the submission of invoices or vouchers. The CO has discretion in applying late payment interest to payments made within the scope of real property contracting actions.

13 Fast Payment Added 10/2007

a. Fast payment procedures may be included SIRs and contracts when it may not be possible for the receiving location to make timely notice to the payment office that supplies are accepted. In order for fast payment procedures to be authorized by the CO:

- (1) The SIR or contract must be firm fixed-price;
- (2) Title must vest in the FAA upon shipment or receipt;
- (3) The supplier must agree to replace or repair supplies damaged in transit or not conforming to contract requirements; and
- (4) Safeguards must be in place to ensure supplies are shipped, received, and acceptable.

b. Invoices will be paid on the basis of the contractor's delivery of supplies to a post office or common carrier for shipment to the specific destination.

c. For supplies delivered by means other than the Postal Service or common carrier, invoices will be paid on the basis of first receipt of the supplies by FAA.

d. The CO has 180 days from the date title to the supplies vests in FAA to instruct the contractor to replace, repair, or correct nonconforming supplies at the contractor's expense.

e. All invoices and shipping containers must be marked "FAST PAY."

14 Invoices Revised 1/2021

(This section applies to contracts **not** subject to AMS T3.3.1A.15 Electronic Payment Requests – Invoices (eInvoicing))

a. Proper Invoice.

- (1) For FAA to make payment under a contract, a proper invoice must be submitted to FAA by the contractor. If the invoice does not meet the definition of a proper invoice per section (2) below, it must be rejected within seven (7) days of receipt.

(2) A proper invoice contains the following:

- (a) Name and address of contractor;
- (b) Invoice date;
- (c) Contract number (to include applicable order numbers and Contract Line Item Numbers (CLINs);
- (d) Description, quantity, unit of measure, unit price, and extended price of supplies delivered or services performed;
- (e) Shipping and payment terms, to include, when applicable:
 - (i) Shipment number and date of shipment,
 - (ii) Bill of lading number and weight (for government bills of lading), and
 - (iii) Prompt payment discount terms.
- (f) Contractor or bank address where electronic payment is to be sent;
- (g) Name, title, phone number, and mailing address of person to be notified of a defective invoice;
- (h) Other information required by the contract (i.e. certified payrolls, evidence of shipment, etc); and
- (i) Invoice number, account number, and/or any other identifying number agreed under the contract.

b. Invoice Routing and Acceptance.

- (1) All contracts must specify the FAA employees (or offices) to whom invoices are to be sent.
- (2) Invoices must be date stamped when received by FAA Accounting as specified under (b)(4) below, and this date will serve as the reference point for Prompt Payment standards (see Prompt Payment in this Section).
- (3) Varying locations in FAA may have specialized routing of invoices for supplies, services, or construction; however, in all cases, one original of the invoice must be delivered to accounting (AMK-310). The routing and acceptance of a proper invoice should generally follow these steps:

- (a) One original of the invoice will be delivered to accounting (AMK-310), while one original will be sent to both the CO and Contracting Officer's Representative (COR). Electronic submission of invoices will be allowed per Agency finance guidelines and prior agreement with the finance office;
- (b) Once received by accounting, the invoice will be date stamped unless received electronically and assigned to an Accounts Payable (A/P) technician;
- (c) The A/P technician will send an e-mail notification to the CO and COR requesting acceptance of the invoice and completion of the an invoice certification sheet or other payment documentation;
- (d) Based on documentation or a receiving report from the COR and the presence of a proper invoice, the COR or CO will perform acceptance in PRISM if necessary for a 3-Way match. If a 2-Way match, the COR or CO will ensure that the supplies and/or services on the invoice have been received. When a COR has not been designated, the CO may designate in writing a FAA Program Office employee to perform acceptance in PRISM. After invoice review and any acceptance, the CO will complete an invoice certification sheet or other payment documentation for the contract file and advise the A/P technician that the invoice is ready for payment. This CO approval of invoices may be delegated in writing to the receiver where firm-fixed-price commercial supplies or services are being purchased.
- (e) The A/P technician will then verify that all invoice requirements have been met and process the invoice for payment; and
- (f) Copies of all payment documentation will be retained in the contract file.

c. Real Property Invoicing

(1) Payment without Invoices

- (a) Payment for real property acquisitions shall be in arrears, without the submission of invoices or vouchers.
- (b) Payments are due on the first business day following the end of the payment period and this date may serve as the reference point for Prompt Payment standards (see Prompt Payment for Real Property in this Section).
- (c) The payments shall be directly deposited in accordance with the "Payment by Electronic Funds Transfer" clause in the Real Estate contract. Payments shall be considered paid on the day an electronic funds transfer is made.

(2) *Routing and Acceptance*

When COs create awards in PRISM, they will be required to select a Two (2) Way match for processing payment in Delphi. Detailed information on payment matching and acceptance requirements can be found on the PRISM website. 2-Way match requires the presence of an award without the need for manual acceptance in PRISM, and is authorized for the following types of procurements:

- (a) Awards for services placed on Recurring Payment; and.
- (b) Leases and Utilities placed on Lump Sum or Recurring Payment.

15. Electronic Payment Requests -Invoices (eInvoicing) Revised 1/2021

- a. *Requirements.* Contracts will require the electronic submission of payment requests except for
 - (1) Classified contracts or purchases where the electronic submission and processing of payment requests could compromise classified information or national security; or
 - (2) For contracts with an approved waiver per AMS Guidance T3.3.1A.15.e for alternate payment procedures. or
 - (3) For those paid for with a Government purchase card; or
 - (4) Real Property contracts.

Contracts not requiring the electronic submission of payment requests must be administered consistent with the previous Guidance section “Invoices”. A waiver is not needed for contracts under a (1), (3), or (4).

- b. *FAA Electronic Invoicing System.* FAA uses the DOT Delphi eInvoicing web portal to facilitate the electronic submission and approval of contractor invoices. Except as provided in paragraph (a) of this section, contracting officers and finance officials will process electronic payment submissions through the Delphi web portal. If the requirement for electronic submission of payment requests is waived under paragraph (e) of this section, the contract or alternate payment authorization, as applicable, will specify the form and method of payment request submission.
- c. *Electronic Authentication.* Access to Delphi eInvoicing is granted with electronic authentication of credentials (name & valid email address) utilizing the GSA credentialing platform login.gov. Contractors submitting invoices must submit invoices via the Delphi eInvoicing web portal which is authenticated via login.gov.
- d. *Contract clauses.* Contracting officers must insert AMS clause 3.3.1-40 “Electronic Submission of Payment Requests” and provision 3.3.1-41 “Electronic Invoicing - Representation” in all applicable contracts per paragraphs (a) and (b).

- e. *Waivers.* If a contract requires alternate payment procedures other than eInvoicing, a waiver must be approved . If an offeror wishes to request a waiver from eInvoicing requirements per AMS provision 3.3.1-41, then the offeror must provide the documentation required by the provision. If the offeror then receives award, the waiver request will be expeditiously considered as follows:

- (1) The Contracting Officer and AAQ Branch Manager must first approve the waiver and document the approval in the contract file;
- (2) The waiver request will then be forwarded to FAA ESC Accounts Payable (9-AMC-FAA-iSupplier@faa.gov) who will then submit the waiver request to DOT. ESC Accounts Payable will notify the Contracting Officer whether the waiver is approved.

Waivers will only be granted under unusual circumstances; e.g., the contractor cannot utilize the Delphi eInvoicing web portal or the FAA is unable to receive electronic payment requests or provide acceptance electronically. The FAA decision on a waiver is final and not subject to the “ Contract Disputes” clause AMS 3.9.1-1. If a waiver is granted, the contractor will utilize the current invoicing process per AMS Guidance T3.3.1A.14 and applicable contract clauses. The contract may still be converted to eInvoicing at a later date.

16 Debt Collection Revised 1/20219/2021

- a. Contract debts arise in various ways. The following are some examples:

- (1) Damages or excess costs related to defaults in performance.
- (2) Breach of contract obligations concerning progress payments, advance payments, or Government-furnished property or material.
~~Government furnished property or material.~~
- (3) FAA expense of correcting defects.
- (4) Overpayments related to errors in quantity or billing or deficiencies in quality.

b. Once an indication of a contract debt surfaces, it should promptly be determined if a debt is due to FAA and in what amount. A demand for payment should be made as soon as the amount of the refund has been calculated. In general, interest will be due on any contract debt that is unpaid after 30 days. For debts under \$100,000, excluding interest, if further collection is not practicable, or would cost more than the amount of recovery, FAA may compromise the debt or terminate or suspend further collection action.

- c. Local legal counsel must review and approve any debt collection activity.

17Assignment of Claims Revised ~~1/2021~~9/2021

a. Assignment of contract payments is the transfer by a contractor of its right to be paid by FAA for contract performance to a bank, trust company, or other financing institution. This assignment of contract payments serves as security for a loan to the contractor. An assignment of contract payments extinguishes the right of the transferor (assignor, contractor) to all future payments due under the contract, and establishes that right in the transferee (assignee, financial institution).

b. FAA may permit assignment of contract payments to help contractors obtain independent financing. When the contract provides for advance payments, assignments are not permitted.

c. No payments made by FAA to the assignee under any contract assigned may be recovered because of any liability of the contractor to FAA. This immunity of the assignee is effective whether the contractor's liability arises from, or independently of, the assigned contract.

d. A contractor may assign payments due or to become due under a contract if all the following conditions are met:

- (1) The assignment is made to a bank, trust company, or other financing institution, including any Federal lending agency;
- (2) The assignment covers all unpaid amounts payable under the contract; and
- (3) The contract terms do not expressly prohibit the assignment.

e. The CO processes requests for assignments from the contractor or financial institution. The contractor notifies the CO that an assignment is contemplated, and the assignment becomes effective upon written acknowledgment by the CO. An assignment should adhere to the following:

- (1) Assignments for corporations must be:
 - (a) Executed by an authorized representative, validated by the secretary or the assistant secretary of the corporation, and impressed with the corporate seal; or
 - (b) Accompanied by a true copy of the authorization from the corporation's board of directors for the signing representative to execute the assignment.
- (2) Assignments for partnerships may be signed by one partner, if accompanied by adequate evidence that the signer is a general partner of the partnership and is authorized to execute the assignment on behalf of the partnership.

(3) Assignments by an individual must be signed by that individual in the presence of and acknowledged before a notary public or other person authorized to administer oaths.

(4) The assignee must forward an original and three copies of the notice of assignment, (see sample Notice of Assignment in AMS Procurement Samples for reference), together with one true copy of the instrument of assignment, to each of the following:

(a) CO;

(b) Surety on any bond applicable to the contract; and

(c) FAA accounting office designated to make payments.

(5) Before acknowledging the assignment, the CO should ensure that the contract permits assignment, the assignment covers only money due or to become due, and, unless waived, the assignee is registered separately in the Central Contractor Registration.

~~waived, the assignee is registered separately in the Central Contractor Registration.~~

f. Upon notification of a desire for an assignment, the CO will:

(1) Notify the accounting office designated to make payments of the pending assignment; and

(2) Immediately notify the disbursing officer when assignment is accepted and ensure delivery of the instrument to the disbursing officer.

g. A release of assignment is required whenever the contractor wishes to reestablish its right to receive further payments and a balance remains due under the contract. If the assignee releases the contractor from an assignment of claims under the contract, the contractor must provide the CO, any Surety on any bond, and the FAA accounting office with the following:

(1) Written Notice of Release; and

(2) A true copy of the release instrument.

Each FAA addressee of a Notice of Release of Assignment should acknowledge receipt of the notice.

h. Assignments may be made to banks, trust company or financing institutions only.

18 Automatic Deobligation Revised 1/2021

a. *Inactive Obligations.* After 365 days of inactivity and a total line item obligation balance with

an absolute value of \$250 or less, or after 730 days of inactivity and a total line obligation balance with an absolute value of \$750 or less, a system-generated modification to deobligate this line item balance will be created and approved in PRISM. This deobligation modification will be created and approved through an automated process that will be run no less than once a year. The FAA payment office will adjust all financial records to reflect the fact that no undisbursed obligation balance remains on the line item. Any valid invoices received by FAA after this deobligation will be paid out of appropriate available funding. Upon notification from the Contracting Officer, the FAA's Office of Financial Services will promptly coordinate with the appropriate line of business/staff office to submit a procurement request with the necessary funding to pay the valid invoice in accordance with the Prompt Payment Act.

- b. *Cancelled Funds.* A system-generated modification to deobligate cancelled funds, of any dollar value, will be automatically created and approved in PRISM. Each system-generated modification will include a description in the modification text that the purpose of the modification is to deobligate cancelled funds and will cite AMS T3.3.1A.17 as the modification authority. The modification to deobligate cancelled funds can occur at any time and the FAA payment office will adjust all financial records to reflect the fact that no undisbursed obligation balance remains on the line item.

19 Incremental Funding for Fixed-Price Contracts Added 1/2021

- a. A fixed-price contract may be incrementally funded only if—
 - (1) The contract (excluding any options) or any exercised option—
 - (a) Is for severable services;
 - (b) Does not exceed one year in length; and
 - (c) Is incrementally funded using funds available as of the date the funds are obligated; or
 - (2) The contract uses funds available from two or more fiscal years and—
 - (a) Is a major systems acquisition; or
 - (b) Congress has otherwise authorized incremental funding
- b. An incrementally funded fixed-price contract will be fully funded as soon as funds are available.

B Clauses

[view contract clauses](#)

C Procurement Forms ~~Revised 4/2006~~ Revised 9/2021

[view procurement forms](#)

[Electronic Funds Transfer \(EFT\) Waiver Request](#)

D Appendix ~~Added 10/2007~~

1 Appendix – Sample Notice of Assignment ~~Added 10/2007~~

NOTICE OF ASSIGNMENT

To: _____ (Address to one of the parties listed in subparagraph A.16.e.4 above)

This is a Notice of Assignment for Contract No. _____ dated _____, entered into between _____ (Contractor's name and address) and the FAA for _____ (Describe the nature of the contract):

Moneys due or to become due under this contract have been assigned. A true copy of the instrument of assignment executed by the Contractor on _____ (Date) is attached to the original notice. Payments due or to become due under this contract should be made to the undersigned assignee.

Please return, to the undersigned, the three enclosed copies of this notice with appropriate notations showing the date and hour of receipt, and signed by an FAA employee acknowledging receipt on behalf of the addressee.

Very truly yours,

_____ (Name of Assignee)

By _____ (Signature of Signing Officer)

_____ (Title of Signing Officer)

_____ (Address of Assignee)

-

ACKNOWLEDGEMENT

-

The FAA acknowledges receipt of the above notice and a copy of the instrument of assignment. These documents were received at _____ (a.m./p.m.) on _____ (Date).

(FAA Signature)

(FAA Title)

On Behalf of _____ (Name of the FAA Addressee of this Notice)

Document Name
Contractor's Request for Progress Payment
Electronic Funds Transfer Waiver Request

D Procurement Samples Revised 9/2021

Document Name
Sample Notice of Assignment

E Procurement Templates Added 9/2021

F Procurement Tools and Resources Added 9/2021

Section Revised: T3.4.2 – Taxes

Procurement Guidance - (~~7/2021~~9/2021)

T3.4.2 - Taxes

A Taxes

1 General

2 Federal Excise Taxes

3 General Exemptions Revised 10/2018

4 State and Local Taxes Revised 10/2018

5 State and Local Tax Exemptions

B Clauses

~~C Forms~~

C Procurement Forms Revised 9/2021

D Procurement Samples Added 9/2021

E Procurement Templates Added 9/2021

F Procurement Tools and Resources Added 9/2021

T3.4.2 - Taxes

A Taxes

1 General

- a. This section provides general information on a range of taxation issues including:
 - (1) Using tax clauses in contracts (including foreign contracts);
 - (2) Asserting immunity or exemption from taxes; or
 - (3) Obtaining tax refunds.
- b. This section does not present the full scope of the tax laws and regulations. Therefore, contracting officers (CO) should work closely with legal counsel when tax questions arise.
- c. COs must consult legal counsel before negotiating with any taxing authority for the purpose of:
 - (1) Determining whether or not a tax is valid or applicable; or
 - (2) Obtaining an exemption from, or refund of, a tax.
- d. When the FAA's constitutional immunity from State or local taxation may be at issue, contractors should be discouraged from negotiating independently with taxing authorities if the contract involved is either:
 - (1) A cost-reimbursement contract, or
 - (2) A fixed-price contract containing a tax escalation clause.
- e. The CO should consult legal counsel for the following before purchasing goods or services from a foreign source:
 - (1) Information on foreign tax treaties and agreements in force and on the implementation of any foreign-tax-relief programs and
 - (2) Resolution of other tax questions affecting the prospective contract.

2 Federal Excise Taxes

- a. Federal excise taxes are levied on the sale or use of particular supplies or services. Subtitle D of the Internal Revenue Code of 1954, Miscellaneous Excise Taxes, 26 U.S.C. 4041, et seq., and its implementing regulations, 26 CFR 40 through 299, cover miscellaneous federal excise tax

requirements. Questions arising in this area should be directed to legal counsel. The most common excise taxes are--

(1) Manufacturers' excise taxes imposed on certain motor-vehicle articles, tires and inner tubes, gasoline, lubricating oils, coal, fishing equipment, firearms, shells, and cartridges sold by manufacturers, producers, or importers; and

(2) Special-fuels excise taxes imposed at the retail level on diesel fuel and special motor fuels.

b. Sometimes the law exempts the Federal Government from these taxes. COs should solicit prices on a tax-exclusive basis when the Government is exempt from these taxes, and on a tax- inclusive basis when no exemption exists.

c. COs should take maximum advantage of available Federal excise tax exemptions.

3 General Exemptions

a. No Federal manufacturers' or special-fuels excise taxes are imposed in many contracting situations as, for example, when the supplies are for any of the following:

(1) The exclusive use of any State or political subdivision, including the District of Columbia (26 U.S.C. 4041 and 4221);

(2) Shipment to a United States possession or Puerto Rico, or for export. Shipment or export must occur within 6 months of the time title passes to the Government. When the exemption is claimed, the words "for export or shipment to a possession" must appear on the contract or purchase document, and the contracting officer must furnish the seller proof of export (see 26 CFR 48.4221-3);

(3) Further manufacture, or resale for further manufacture (this exemption does not include tires and inner tubes) (26 CFR 48.4221-2);

(4) Use as fuel supplies, ships or sea stores, or legitimate equipment on vessels of war, including

(a) Aircraft owned by the United States and constituting a part of the armed forces; and

(b) Guided missiles and pilotless aircraft owned or chartered by the United States. When this exemption is to be claimed, the purchase should be made on a tax-exclusive basis. The CO must furnish the seller an exemption certificate for Supplies for Vessels of War (an example is given in 26 CFR 48.4221-4(d)(2); the IRS will accept one certificate covering all orders under a single contract for a specified period of up to 12 calendar quarters) (26 U.S.C. 4041 and

4221);

(5) A nonprofit educational organization (26 U.S.C. 4041 and 4221); (6) Emergency vehicles (26 U.S.C. 4053 and 4064(b)(1)(c)).

b. Other Federal Tax Exemptions.

(1) Pursuant to 26 U.S.C. 4293, the Secretary of the Treasury has exempted the United States from the communications excise tax imposed in 26 U.S.C. 4251, when the supplies and services are for the exclusive use of the United States. (Secretarial Authorization, June 20, 1947, Internal Revenue Cumulative Bulletin, 1947-1, 205.)

(2) Pursuant to 26 U.S.C. 4483(b), the Secretary of the Treasury has exempted the United States from the federal highway vehicle users tax imposed in 26 U.S.C. 4481. The exemption applies whether the vehicle is owned or leased by the United States. (Secretarial Authorization, Internal Revenue Cumulative Bulletin, 1956-2, 1369.)

4 State and Local Taxes

a. Definition. "State and local taxes" means taxes levied by the States, the District of Columbia, Puerto Rico, possessions of the United States, or their political subdivisions.

b. Application of State and Local Taxes to the FAA.

(1) Generally, purchases and leases made by the Federal Government are immune from State and local taxation. Whether any specific purchase or lease is immune, however, is a legal question requiring advice and assistance of legal counsel.

(2) When it is economically feasible to do so, the FAA should take maximum advantage of all exemptions from State and local taxation that may be available. If appropriate, the CO should provide a Standard Form 1094, U.S. Tax Exemption Form, or other evidence to establish that the purchase is being made by the FAA.

c. Application of State and Local Taxes to FAA Contractors and Subcontractors.

(1) Prime contractors and subcontractors must not normally be designated as agents of the Government for the purpose of claiming immunity from State or local sales or use taxes. Before any such determination is made the CO must consult with legal counsel.

(2) When a prime contractor or a subcontractor under a prime contract makes a purchase instead of the FAA, the right to an exemption of the transaction from a sales or use tax may not rest on the Government's immunity from direct taxation by States and localities. It may rest instead on provisions of the particular State or local law

involved, or, in some cases, the transaction may not in fact be expressly exempt from the tax.

(3) Frequently, property (including property acquired under the progress payments clause of fixed-price contracts or the Government property clause of cost-reimbursement contracts) owned by the Government is in the possession of a contractor or subcontractor. Situations may arise in which States or localities assert the right to tax Government property directly or to tax the contractor's or subcontractor's possession of, interest in, or use of that property. In such cases, the CO must seek review and advice from legal counsel on the appropriate course of action.

d. Matters Requiring Special Consideration.

(1) The imposition of State and local taxes may result in special contract considerations including the following:

(a) With coordination of legal counsel, a contract may -

(i) State that the contract price includes or excludes a specified tax or

(ii) Require that the contractor take certain actions with regard to payment, nonpayment, refund, protest, or other treatment of a specified tax. Such special treatment may be appropriate when there is doubt as to the applicability or allocability of the tax, or when the applicability of the tax is being litigated.

(b) The applicability of State and local taxes to purchases by the FAA may depend on the place and terms of delivery. When the contract price will be substantial, alternative places and terms of delivery should be considered in light of possible tax consequences.

(c) Indefinite-delivery contracts for equipment rental may require the contractor to furnish equipment in any of the States. Since leased equipment remains the contractor's property, States and local governments impose a wide variety of property, use, or other taxes on equipment leased to the Government. The amount of these taxes can vary considerably from jurisdiction to jurisdiction.

(d) *The North Carolina State and Local Sales and Use Tax.*

(i) The North Carolina Sales and Use Tax Act authorizes counties and incorporated cities and towns to obtain each year from the Commissioner of Revenue of the State of North Carolina a refund of sales and use taxes indirectly

paid on building materials, supplies, fixtures, and equipment that become a part of or are annexed to any building or structure erected, altered, or repaired for such counties and incorporated cities and towns in North Carolina. In *United States v. Clayton*, 250 F. Supp. 827 (1965), it was held that the United States is entitled to the benefit of the refund, but must follow the refund procedure of the Act and the regulations to recover what it is due.

(ii) The Act provides that, to receive the refund, claimants must file, within 6 months after the claimant's fiscal year closes, a written request substantiated by such records, receipts, and information as the Commissioner of Revenue may require. No refund will be made on an application not filed within the time allowed and in such manner as the Commissioner may require. The requirements of the Commissioner are set forth in regulations that provide that, to substantiate a refund claim for sales or use taxes paid on purchases of building materials, supplies, fixtures, or equipment by a contractor, the Government must secure from the contractor certified statements setting forth the cost of the property purchased from each vendor and the amount of sales or use taxes paid. In the event the contractor makes several purchases from the same vendor, the certified statement must indicate the invoice numbers, the inclusive dates of the invoices, the total amount of the invoices, and the sales and use taxes paid. The statement must also include the cost of any tangible personal property withdrawn from the contractor's warehouse stock and the amount of sales or use tax paid by the contractor. Similar certified statements by subcontractors must be obtained by the general contractor and furnished to the claimant. Any local sales or use taxes included in the contractor's statement must be shown separately from the State sales or use taxes.

(iii) The clause prescribed at 3.4.2-9 requires contractors to submit to COs by November 30 of each year a statement disclosing North Carolina State and local sales and use taxes paid during the 12-month period that ended the preceding September 30. The CO should ensure that contractors comply with this requirement and must obtain the annual refund to

which the Government may be entitled. The application for refund must be filed each year before March 31 and in the manner and form required by the Commissioner of Revenue. Copies of the form may be obtained from the State of North Carolina Department of Revenue, PO Box 25000, Raleigh, North Carolina 27640.

5 State and Local Tax Exemptions

a. Evidence needed to establish exemption from State or local taxes depends on the grounds for the exemption claimed, the parties to the transaction, and the requirements of the taxing jurisdiction. Such evidence may include the following:

- (1) A copy of the contract or relevant portion;
- (2) Copies of purchase orders, shipping documents, credit-card-imprinted sales slips, paid or acknowledged invoices, or similar documents that identify an agency or instrumentality of the United States as the buyer;
- (3) A U.S. Tax Exemption Form (SF 1094);
- (4) A State or local form indicating that the supplies or services are for the exclusive use of the United States;
- (5) Any other State or locally required document for establishing general or specific exemption;
- (6) Shipping documents indicating that shipments are in interstate or foreign commerce.

b. If a reasonable basis to sustain a claimed exemption exists, the seller will be furnished evidence of exemption, as follows:

- (1) Under a contract containing the clause at 3.4.2-8, Federal, State, and Local Taxes, Competitive Contracts, or at 3.4.2-7, Federal, State, and Local Taxes (Noncompetitive Contract), in accordance with the terms of those clauses;
- (2) Under a cost-reimbursement contract, if requested by the contractor and approved by the CO or at the discretion of the CO;
- (3) Under a contract or purchase order that contains no tax provision, if—

(i) Requested by the contractor and approved by the CO or at the discretion of the CO; and

(ii) Either the contract price does not include the tax or, if the transaction or property is tax exempt, the contractor consents to a reduction in the contract price.

B Clauses

[view contract clauses](#)

C Procurement Forms Revised 9/2021

[view procurement forms](#)

Document Name
U.S. Tax Exemption Form (SF 1094)

D Procurement Samples Added 9/2021

Document Name

E Procurement Templates Added 9/2021

Document Name
Tax Exemption Letter

F Procurement Tools and Resources Added 9/2021

Document Name

Section Revised: T3.6.1 – Small Business Program

Procurement Guidance - (~~7/2021~~9/2021)

T3.6.1 - Small Business Program Revised 7/2020

A Small Business Program Revised 7/2020

1 Procurement Team Responsibilities in Support of the Small Business Program

Revised ~~7/2021~~9/2021

2 The FAA Small Business Program and Liaison Representative Involvement

Revised 1/2021

3 Prime Contracting with Small Business Revised 7/2021

4 Subcontracting with Small Business Revised ~~4/2021~~9/2021

5 Size Standard Verification Revised ~~7/2021~~9/2021

6 Contract Bundling Revised ~~7/2021~~9/2021

7 Mentor-Protégé Revised 7/2021

8 Joint Ventures Revised ~~4/2021~~9/2021

9 Tiered Evaluations Revised 1/2021

B Clauses Revised 10/2006

~~C Forms~~

C Procurement Forms Revised 9/2021

D Procurement Samples Revised 9/2021

E Procurement Templates Added 9/2021

F Procurement Tools and Resources Added 9/2021

~~DG~~ Appendix A – Small Business Bundling Decision Flowchart ~~Added 7/2021~~Revised 9/2021

T3.6.1 - Small Business Program Revised 7/2020

A Small Business Program 7/2020

1 Procurement Team Responsibilities in Support of the Small Business Program Revised ~~7/2020~~9/2021

- a. Effective implementation of the FAA's small business programs in their contracting actions, including achieving program goals;
- b. Develop small businesses by taking all reasonable action to increase small business participation in the FAA's procurements (including subcontracts);
- c. Consider the feasibility of breaking out requirements to increase opportunities for small businesses to successfully compete for prime contracts;
- d. Consider the extent of small business participation in contract performance during procurement planning;
- e. Obtain guidance from the FAA Small Business Program (AAP-20) liaison as it relates to small business issues. In doing so, the service teams must coordinate with representatives of the cognizant local AAP-20 staff as soon as requirements estimated to exceed \$250,000 are defined to receive assistance in identifying opportunities for small businesses. This requirement to coordinate does not apply to contract modifications or requirements having an anticipated dollar value exceeding \$10,000 but not over \$250,000 that are set-aside for Socially and Economically Disadvantaged Business (SEDB) 8(a), Service-Disabled Veteran-Owned Small Business (SDVOSB), Historically Underutilized Business Zone (HUBZone) small businesses, Women-Owned Small Business (WOSB) firms, and/or Economically Disadvantaged Women-Owned Small Business (EDWOSB) firms or a small business if no SEDB 8(a), SDVOSB, HUBZone small businesses, WOSB, and/or EDWOSB firms that are competitive in terms of market prices, quality, and delivery can be identified. Use the Small Business Set-Aside Determination and Coordination Form located in Procurement Templates to coordinate with AAP-20 and attach (as applicable) the statement of work, single source rational basis documentation, fully executed single source justification, market survey and market analysis to the form (see also AMS Policy on SEDB 8(a) Set-Asides for use of this form). In addition, any requirements that had previously been procured through the Small Business/SEDB/8(a) Program, but not currently proposed for reprocurement through the Small Business/SEDB/8(a) program must be approved by the cognizant local AAP-20 staff. If agreement cannot be reached, the FAA Acquisition Executive's approval is required prior to any public notice or solicitation of the requirement; and
- f. Participate and assist in the development of small business conferences and outreach efforts sponsored by AAP-20.

2 The FAA Small Business Program (AAP-20) and Liaison

Representative Involvement Revised 1/2021

The Small Business Program (AAP-20) maintains a direct working relationship with the procurement teams. When appropriate, AAP-20 interacts with all procurement teams in the following areas to provide support and ensure effective and consistent program implementation:

- a. Participates in procurement workshops to increase access to and award of FAA contracts by small businesses;
- b. Participates in acquisition and procurement planning meetings and other scheduled meetings with the procurement team as advisors;
- c. Identifies potential small businesses that qualify for a particular procurement;
- d. Provides the procurement team with source lists of small businesses;
- e. Ensures that the source selection criteria used to select firms for award is fair, consistent and does not limit opportunities for small businesses;
- f. Provides advertising recommendations to the integrated products teams to ensure all requirements are being advertised in media accessible to small businesses;
- g. Responds to written and telephone inquiries from small businesses and small businesses owned and controlled by a socially and economically disadvantaged individuals regarding procurement opportunities with FAA;
- h. Reviews final source lists to ensure an adequate representation of small businesses;
- i. Reviews questions presented at conferences, preparing answers to questions submitted by small businesses, interacting with the integrated product teams for distribution of responses to all potential contractors;
- j. Reviews annual representations and certifications and accompanying documentation using official records found on the System for Award Management (SAM) and VetBiz;
- k. Small Business Administration's Small Business websites will be utilized to support market Research;
- l. Reviews subcontracting plans;
- m. Ensures that small businesses and small businesses owned and controlled by socially and economically disadvantaged individuals are entered into the AAP-20 database;
- n. Assists in the proposal evaluation process as a non-voting member of the evaluation team;

- o. Conducts on-site pre-award verifications to verify that a sufficient percentage of the ownership, as well as the business control and management of the firm is vested in a disadvantaged group member(s), service-disabled veteran(s) or woman (women) and verify compliance with small business program requirements;
- p. Participates in debriefings of unsuccessful small businesses to ensure fair and equitable treatment to all firms;
- q. Participates in postaward meetings with successful offerors to ensure a clear understanding of small business program guidelines and engagement of small businesses as subcontractors; and
- r. Conducts on-site compliance reviews of contractors with subcontracting plans to ensure compliance with program requirements.

3 Prime Contracting with Small Business Revised 7/2021

a. While the use of small business set-asides as a method of procurement is not mandatory, small businesses must be afforded reasonable opportunities to compete for all procurements. All procurements must first be considered for set-aside before procuring the product or service on an unrestricted basis. Thus, procurement teams should take the following actions when appropriate:

- (1) Set-aside procurements competitively in accordance with the policies and guidance contained in Acquisition Management System (AMS) Section 3.2.2 Source Selection;
- (2) Consider the capabilities of small businesses and small businesses owned and controlled by socially and economically disadvantaged individuals during the screening phase of each procurement;
- (3) Breakout large requirements (if severable) into smaller sized requirements to provide for greater small business participation;
- (4) Plan procurements of supplies and services so that more than one small business firm may perform the work (if the work exceeds the amount that a single small business can handle);
- (5) Ensure that delivery schedules are established on a realistic basis to encourage small business participation to the extent consistent with actual requirements of FAA;
- (6) Encourage teaming relationships among small and large businesses to enhance competition; and
- (7) Utilize small businesses on qualified vendor lists on a rotational basis to increase opportunities to the greatest number of small businesses.

b. Conducting set-asides with small businesses, small businesses owned and controlled by socially and economically disadvantaged individuals (8(a) Certified), service-disabled veteran owned small businesses, Historically Underutilized Business Zone (HUBZone) small businesses, and Women Owned Small Businesses:

(1) All set-asides are to be conducted directly with small businesses independent of the Small Business Administration (SBA);

(2) Procurements may be set-aside exclusively for small businesses;

(3) Procurements may also be set-aside exclusively for competitive award among small socially and economically disadvantaged businesses (SEDBs) that are expressly certified by the Small Business Administration (SBA) for participation in the SBA's 8(a) program. Each firm claiming 8(a) status is required to provide a copy of its SBA 8(a) certification letter to the Contracting Officer (CO) as evidence of eligibility. There is no requirement for SBA's approval to make award to the SEDB;

(4) Industry should be notified of the applicable North American Industry Classification System (NAICS) code representing the predominant portion of the overall requirement in the public announcement to ensure small business size eligibility requirements are timely known;

(5) Procurements may be set-aside exclusively for competitive award among service-disabled veteran owned small businesses (SDVOSB) as defined by 38 U.S.C. 101. Each firm claiming SDVOSB status is required to complete the electronic annual representations and certifications via SAM at <https://www.sam.gov>. to self-certify its eligibility. The firm must also be verified by the Department of Veterans Affairs and appear in the Vendor Information Pages on the Veteran Affairs website;

(6) There is no requirement to obtain the SBA's or Veteran Administration's approval to make award to the selected SDVOSB. However, unless the firm is designated as a SDVOSB on the VA website, the CO must not make an award to the firm as a SDVOSB;

(7) Procurements may be set-aside exclusively for competitive award among HUBZone small businesses that are expressly certified by the Small Business Administration (SBA) for participation in the HUBZone program. Each firm claiming HUBZone status is required to complete the electronic annual representations and certifications via SAM at <https://www.sam.gov> to self-certify its eligibility. Certification can also be verified on the List of Qualified HUBZone Small Business Concerns at http://dsbs.sba.gov/dsbs/search/dsp_searchhubzone.cfm. There is no requirement for SBA's approval to make award to the selected HUBZone small business;

(8) Procurements may be set-aside exclusively for competitive award among Women-Owned Small Business (WOSB) that are either certified by the SBA or by a third-party certifier approved by the SBA and are eligible under the WOSB Program. Program participants' WOSB certification must be on the firm's Dynamic Small Business Search (DSBS) profile. WOSB concerns are eligible under the WOSB Program when the acquisition is assigned a North American Industry Classification System (NAICS) code in which SBA has determined that WOSB concerns are underrepresented or substantially underrepresented in Federal procurement. These NAICS are listed by the SBA on their website (see <https://www.sba.gov/document/support--qualifying-naics-women-owned-small-business-federal-contracting-program>). There is no requirement for SBA's approval to make award to the selected WOSB;

(9) Procurements may be set-aside exclusively for competitive award among Economically Disadvantaged Women-Owned Small Business (EDWOSB) that are either certified by the SBA or by a third-party certifier approved by the SBA and are eligible under the WOSB Program. Program participants' EDWOSB certification must be on the firm's Dynamic Small Business Search (DSBS) profile. EDWOSB concerns are eligible under the WOSB Program when the acquisition is assigned a North American Industry Classification System (NAICS) code in which SBA has determined that EDWOSB or WOSB concerns are underrepresented or substantially underrepresented in Federal procurement. These NAICS are listed by the SBA on their website (see <https://www.sba.gov/document/support--qualifying-naics-women-owned-small-business-federal-contracting-program>). There is no requirement for SBA's approval to make award to the selected EDWOSB;
and

(10) There is no order of precedence among the SEDB 8(a) Program, HUBZone Program, SDVOSB Procurement Program, or the WOSB Program. Results of market research and progress in the achievement of the agency's socio-economic goals should be considered when determining which program to utilize. However, any requirements that had previously been procured through the Small Business/SEDB/8(a) Program, but not currently proposed for reprourement through the Small Business/SEDB/8(a) program must be approved by the cognizant local AAP-20 staff.

(11) *Combined Set-Asides* Procurements may also be set-aside for competitive award among offerors that qualify as both SEDB 8(a) certified and SDVOSB. The requirements of section b are applicable to such combined set-asides.

(12) A procurement may not be set-aside if:

(a) there is no reasonable expectation of obtaining offers from two or more responsible SEDB(8(a)) concerns, small business concerns, service-disabled veteran owned small business concerns, HUBZone small business concerns, or WOSB concerns, or

EDWOSB concerns that are competitive in terms of market prices, quality and delivery; or

(b) it is in the best interest of the FAA to contract with a single source or noncompetitively and the rational basis is documented; or

(c) extension of the current services.

c. Noncompetitive Awards to SEDB (8(a)), SDVOSB, HUBZone, WOSB, and EDWOSB Firms (See AMS Policy Section 3.6.1.3 for applicable thresholds). In addition to meeting eligibility requirements described above, a rational basis for the decision to award a noncompetitive SEDB (8(a)), SDVOSB, HUBZone, WOSB, or EDWOSB procurement should be documented. Procurement decision makers should consider potential SEDB (8(a)), SDVOSB, HUBZone, WOSB, or EDWOSB sources of supply contained in the Dynamic Small Business Search (DSBS), System for Award Management (SAM), and VA Vendor Information Pages Vetbiz website available on the Small Business Program's (AAP-20) website. The ownership and control of the sources on this website have been verified by Veterans Affairs (VA). The public announcement requirements of the AMS Section 3.2.1.3.11 are not applicable to noncompetitive awards to SEDB (8(a)), SDVOSB, HUBZone, WOSB, or EDWOSB firms if the product being procured is not available from Federal Prison Industries.

There is no requirement to obtain the SBA's or Veteran Administration's approval to make award to the selected SDVOSB. However, unless the firm is designated as a SDVOSB on the VA website, the CO must not make an award to the firm as a SDVOSB.

d. Noncompetitive awards above \$25 million to SEDB 8(a) firms: For such awards, the following additional requirements apply:

(1) The program official must prepare a written justification at a minimum documenting the rational basis for the award as follows:

(a) Description of the supplies/services being purchased;

(b) Determination that a noncompetitive contract is in the best interests of FAA;

(c) Determination that the anticipated cost of the contract will be fair and reasonable; and

(d) Applicable AMS references.

(2) The CO and program official must approve the justification, with concurrence by legal counsel (on the justification) and AAP-20 (on the Small Business Set-Aside Determination and Coordination form) before negotiations on the contractor's proposal.

4 Subcontracting with Small Business Revised ~~4/2021~~9/2021

a. In procurements estimated to exceed \$750,000 (\$1,500,000 for construction), the CO must incorporate subcontracting provisions (including attainable and reasonable subcontracting goals for the participation of small businesses, small businesses owned and controlled by socially and economically disadvantaged individuals, HUBZone small businesses, women-owned small businesses and service disabled veteran owned small businesses). A ~~templatesample~~ Master Subcontracting Plan to satisfy the applicable requirements of AMS clause 3.6.1-4, Small, Small Disadvantaged, Women-Owned, Service-Disabled Veteran-Owned and HUBZone Small Business Subcontracting Plan is located in FAST under Procurement ~~Templates &~~ Samples. Subcontracting provisions are not required for; (1) commercial items; (2) when there are no subcontracting possibilities or (3) when the prime contractor is a small business or a small business owned and controlled by a socially and economically disadvantaged individual. The contract should include requirements for contractors to periodically report data on subcontracting accomplishments in sufficient detail to determine the extent of the contractor's attainment of subcontracting goals.

b. The following subcontracting considerations should be used in procurements that have subcontracting provisions as appropriate:

(1) Establishing goals requires much care to ensure that they are realistic and motivate the contractor. Percentage goals that are unrealistically low will only create a false sense of success and should be avoided. Likewise, goals that are too high can be counterproductive.

(2) Subcontracting requirements should be a subject for review and discussion at postaward conferences. It is important to monitor contractor performance in meeting goals. This is particularly important early in the life of the contract when the majority of subcontracts will be awarded. Prompt corrective action should be taken if it appears that a contractor will not meet its goal.

(3) The procurement team should notify the Small Business Program (AAP-20) or Small Business Liaison Representative of the opportunity to review the subcontracting proposal in sufficient time to provide the representative a reasonable time to review the material and submit advisory recommendations prior to award. The CO is responsible for ensuring that the contractor attains all subcontracting goals. Subcontracting data (accomplishments) must be timely reported in the Electronic Subcontracting Reporting System (eSRS).

(4) The CO should provide a listing of potential small business subcontractors for information purposes. The FAA should not make any warranty as to their capabilities or abilities to perform any portion of the contract. The listing may be obtained from the AAP-20 Small Business Liaison Representative.

(5) Evaluate the percentage and dollar volume of planned subcontracting and total dollar volume of expected awards to small business subcontractors (including small businesses owned and controlled by socially and economically disadvantaged individuals, HUBZone, women- owned and service-disabled veteran owned concerns).

(6) There should be separate subcontracting goals for small businesses and small businesses owned and controlled by socially and economically disadvantaged individuals, HUBZone, women-owned and service-disabled veteran owned concerns expressed as a percentage of total planned subcontracting dollars.

(7) Identify principal product and service areas to be subcontracted and identify those areas where it is planned to use small business, small businesses owned and controlled by a socially and economically disadvantaged individual, HUBZone, women-owned and service-disabled veteran owned subcontractors.

(8) Review via SAM representations and certifications of principal proposed small business and small disadvantaged business subcontractors, including the type of product or service and the dollar value to be awarded to each principal subcontractor. This information is to be used to assist the CO in making a determination as to the acceptability of the proposed subcontracting goals. The contractor is not contractually bound to make awards to the designated subcontractors nor is the Government approving the subcontracts.

(9) Evaluate extent of complexity and variety of work to be performed by small businesses with greater weight on businesses performing substantive or high technology components or services. In this way, FAA can ensure that small businesses will receive technologically challenging or a meaningful portion of the overall contract.

(10) Include monetary incentives for subcontracting such as including an award fee provision to provide incentives for providing meaningful, technically substantive subcontracting work to small businesses. Under this approach subcontracting proposals that provide appropriate percentage commitments would be accepted, but an award fee contract line item would be incorporated as part of the contract. Receipt of the award fee would be after either preliminary design review, critical design review, or other appropriate milestones. The percentage amount of the award fee pool would be based on the extent the contractor has provided meaningful, technically substantive work to eligible small businesses within the previously accepted percentage goals.

(11) Evaluate past performance related to the offeror's compliance with prior subcontracting proposals and subcontracting plans, with greater weight on subcontracting proposals received from offerors that have successfully attained or exceeded subcontracting goals in the past.

(12) Evaluate level of participation of small businesses evaluated based on the percentage of the total contract value (if appropriate). This is particularly recommended for requirements traditionally performed by small businesses that may be displaced due to the bundling of smaller set-aside requirements into one larger contract.

(13) Contractors should be required to flow down similar subcontracting requirements under the prime contract to all subcontractors (except small businesses).

(14) If an offeror submits an offer that does not address each of the subcontracting provisions, the CO should advise the offeror of the deficiency and request submission of a revised offer

by a specific date; and (15) If the offeror does not submit an offer incorporating the subcontracting requirements within the time allotted, the offeror should be ineligible for award.

5 Size Standards Verification Revised 7/20219/2021

a. To preserve the integrity and foster the objectives of the small business program, FAA must satisfy itself that the ownership, control, and day-to-day management requirements of the program are fulfilled. Each business claiming eligibility as a small business, small business owned and controlled by a socially and economically disadvantaged individual (8(a) certified), service-disabled veteran-owned small business, HUBZone small business, economically disadvantaged women-owned small businesses, or women owned small business must be required to provide evidence of eligibility prior to award. Prospective contractors must complete electronic annual representations and certifications via SAM at <https://www.sam.gov> and as directed in Guidance subparagraph T3.6.1A3(b). The FAA reserves the right to review and verify each firm's program eligibility. If the firm is not a small business as defined by the North American Industry Classification ~~(NAICS)~~System (NAICS) code size standards, it will not qualify as a small business.

For set-asides restricted to small businesses, small businesses owned and controlled by socially and economically disadvantaged individuals (8(a) certified), service-disabled veteran owned small businesses, HUBZone small businesses, economically disadvantaged women-owned small businesses, and/or women owned small businesses, verification will be performed using SAM and VetBiz (as required). The contracting officer will reference the date of verification in the contract file. For agreements, the contractor retains eligible status for the term of the agreement. The contractor must recertify their business size prior to any extensions of the agreement including exercising an option period.

b. For unrestricted procurements, the successful offeror must complete electronic annual representations and certifications at SAM.

c. When subcontracting goals are established for small businesses, small businesses owned and controlled by socially and economically disadvantaged individuals, HUBZone small businesses, small businesses owned and controlled by women, and service-disabled veteran owned small businesses, the prime contractor must verify a completed profile via SAM for such small businesses counted toward the successful offeror's subcontracting goals.

d. A successful small business program rests with FAA's ability to limit participation to bona fide small businesses, small businesses owned and controlled by socially and economically disadvantaged individuals, HUBZone small businesses, small businesses owned and controlled by economically disadvantaged women, small businesses owned and controlled by women, and service-disabled veteran owned small businesses, for they are the intended recipients of the agency's procurement dollars earmarked for small business set-asides.

e. For the owner of the firm to be found to have controlling interest in the company, the following must exist:

- (1) The eligible owner holds the position of chairperson of the board, president or chief executive officer;
- (2) The eligible owner has the right to vote his or her shares or other equity interest to elect the majority of voting members of the board of directors or other governing body;
- (3) The eligible owner holds at least 51% unconditionally ownership and control of the operation; or
- (4) The eligible owner has direct full-time responsibility for the day-to-day management of the business, as evidenced by all of the following:
 - (a) Directly related managerial or technical experience and competency;
 - (b) Establishment of company policies;
 - (c) Determination and selection of business opportunities;
 - (d) Supervision and coordination of projects
 - (e) Control of major expenditures;
 - (f) Hiring and dismissing key personnel;
 - (g) Marketing and sales decisions; and
 - (h) Signature on major business documents.

6 Contract Bundling Revised ~~7/2021~~9/2021

a. Definitions:

- (1) A bundled contract is a contract that is entered into to meet requirements that are consolidated.
- (2) Bundling is consolidation of two or more requirements for supplies or services, previously provided or performed under separate smaller contracts, into a SIR for a single contract that renders a contract likely to be unsuitable for award to a small business concern (including socially and economically disadvantaged (8(a)), small disadvantaged, service-disabled veteran owned, HUBZone, economically disadvantaged women-owned and women-owned businesses) due to:

- (a) The diversity, size, or specialized nature of the elements of the performance specified;
- (b) The aggregate dollar value of the anticipated award;
- (c) The geographical dispersion of the contract performance sites; or
- (d) Any combination of the factors described in paragraphs (2) (i), (ii), and (iii) of this definition.

(3) Measurably Substantial Benefits are the dollar amount of benefits accruing from the bundling of requirements. These benefits can be in many forms to include cost savings, price reduction, quality efficiency, enhance performance, result in better terms and conditions, reduce acquisition cycle times and any other benefits

b. This section is not applicable to contracts whose total estimated bundled value (including all options) is less than \$10 Million.

c. Bundling of contractual requirements is discouraged unless it is necessary and justified. Bundling is necessary and justified if there are substantial benefits which are measurable and quantifiable. The service team must document the measurably substantial benefits to the Government. Benefits must be equivalent to 10% if the total anticipated contract value is \$94 million or less; or 5% if the contract value exceeds \$94 million.

d. To ensure that prime contract opportunities are provided to small businesses, the following alternatives must be considered prior to bundling:

- (1) Breaking up the procurement into smaller discrete procurements to render them suitable for small business set asides;
- (2) Breaking out discrete components, where practicable, to be set aside for small business; or
- (3) When issuing multiple awards against a single solicitation, reserving one or more awards for small businesses.

e. If a service team determines that contract bundling is to be used, the service team must inform the administrator and include written justification in the file (a part of the acquisition strategy plan, separate memo, etc.) outlining the need for bundling and documenting the impact on attaining the FAA socioeconomic goals. Additionally, if bundling would result in any adverse impact to achievement of the agency's socio-economic goals, the SIR for the bundled procurement must be approved by the FAA Acquisition Executive (FAE).

In addition, the service team must notify the local Small Business Program (AAP-20) prior to issuance of the SIR.

f. In a bundled procurement, the acquisition strategy should provide for maximum practicable participation by small business concerns. Some of the ways this can be accomplished include the following:

(1) Authorizing two or more small businesses to form a contract team and for that team to be considered a small business for purposes of a bundled requirement provided that each small business partner to the teaming arrangement individually qualifies as a small business under the assigned ~~NAIC~~NAICS codes for the requirement.

(2) For SIRs that offer a significant opportunity for subcontracting, the CO should include proposed small business, small disadvantaged business and women- owned business subcontracting participation in the subcontracting plan as an evaluation factor.

(3) Including small business, small disadvantaged business and women-owned subcontracting goals in SIRs and contracts based on contract dollars versus planned subcontracting dollars.

(4) Consulting the local AAP-20 staff.

g. The requirements of this section do not apply to bundled contracts that are awarded in accordance with OMB Circular A-76 if a cost comparison has been performed under A-76 procedures.

h. The requirements of this section do not apply to contracts to be awarded and performed entirely outside of the United States.

i. See Appendix AG – Small Business Bundling Decision Flowchart attached to AMS guidance T3.6.1 – Small Business Program, for a guide in the determination of bundling requirements.

7 Mentor-Protégé Revised 7/2021

a. Definitions.

(1) SMALL DISADVANTAGED BUSINESSES (SDB), as used in the Mentor-Protégé Program, means small business concerns owned and controlled by socially and economically disadvantaged individuals as defined by the Acquisition Management System (AMS).

(2) HISTORICALLY BLACK COLLEGES AND UNIVERSITIES (HBCU) means institutions determined by the U.S. Secretary of Education to meet the requirements of 34 CFR 608.2 and listed therein.

(3) MINORITY EDUCATIONAL INSTITUTIONS (MI) means institutions verified by the U.S. Secretary of Education to meet the criteria set forth in 34 CFR 637.4. MIs include Hispanic-serving institutions as defined by 20 USC 1059c (b)(1).

(4) ECONOMICALLY DISADVANTAGED WOMEN-OWNED SMALL BUSINESS (EDWOSB) has the same definition as “Economically Women-Owned Small Business concern” in Appendix C of AMS Policy

(5) WOMEN-OWNED SMALL BUSINESS (WOSB) has the same definition as “Women-owned small business concern eligible under the women-owned small business program” in Appendix C of AMS Policy.

(6) SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS (SDVOSB) is a small business concern that is 51% owned and controlled by a service-disabled veteran(s).

(7) HIGH-TECH, as used herein means research and/or development efforts that are within or advances the state-of-the-art in technology discipline and are performed primarily by professional engineering, scientists, and highly skilled and trained technicians or specialists.

(8) SOCIALLY AND ECONOMICALLY DISADVANTAGED BUSINESS (SEDB) is a small business concern that is at least 51 percent unconditionally owned by one or more individuals who are both socially and economically disadvantaged, or a publicly owned business that has at least 51 percent of its stock unconditionally owned by one or more socially and economically disadvantaged individuals and that has its management and daily business controlled by one or more such individuals.

(9) SMALL BUSINESS (SB) is a business, including its affiliates, that is independently owned and operated and not dominant in producing the products or performing the services being purchased, and one that qualifies as a small business under the Federal Government's criteria and North American Industry Classification System (NAICS) Code size standards.

b. Purpose.

The FAA Mentor-Protégé Program is designed to motivate and encourage firms to assist Small Businesses (SB), preferably Socially and Economically Disadvantaged Businesses (SEDB), Small Disadvantaged Businesses (SDB), Service-Disabled Veteran-Owned Small Business (SDVOSB), Historically Black Colleges and Universities (HBCU), and Minority Institutions (MI), Economically Disadvantaged Women-Owned Small Businesses (EDWOSB) and Women-Owned Small Businesses (WOSB), enhancing their capabilities to perform FAA prime contracts and subcontracts, foster long-term business relationships between these entities and Mentor Firms, and increase the overall number of these entities that receive FAA prime contract and subcontract awards. The "Mentor-Protégé Program Guide" may be obtained from the Small Business Program (AAP-20) staff.

c. Incentives for Mentor Participation.

(1) Mentors may receive additional evaluation points (for Mentor-Protégé Program participation) toward the award of contracts during the evaluation of competitive offers.

(2) Mentors may receive credit toward attaining subcontracting goals contained in their FAA subcontracting plan(s) for Mentor-Protégé participation.

(3) Costs incurred by a mentor to provide developmental assistance (i.e., technical or managerial) described in Section 1.12 are allowable as indirect costs (appropriate documentation must be provided) unless the contract contains a line item specifically for the Mentor-Protégé Program. A ceiling on allowable developmental costs must be established at time of contract award.

(4) Procurements may be set-aside exclusively for competition among firms that are participants in the FAA Mentor-Protégé Program.

d. *Review and Approval on Mentor-Protégé Application and Agreement.*

(1) The Mentor-Protégé application and agreement is reviewed by AAP-20. The review should be completed no later than 30 days after receipt. AAP-20 should provide a copy of the submitted information to the cognizant FAA service team and Contracting Officer for a parallel review and concurrence.

(2) Upon approval of the agreement, the mentor may implement the developmental assistance program.

(3) An approved agreement must be incorporated into the mentor or protégé firm's award (for example: a contract, blanket purchase agreement, purchase order, memorandum of agreement, memorandum of understanding, etc.). It should be added to the subcontracting plan in contracts which contain such a plan.

(4) If the application is disapproved, then the mentor may provide additional information for reconsideration. The review of any supplemental material should be completed within 30 days after receipt by AAP-20. Upon finding deficiencies that FAA considers correctable, AAP-20 should notify the mentor and request information to be provided within 30 days that may correct the deficiencies.

e. Additional Mentor-Protégé Program guidance is located on the AAP-20 website.

8 Joint Ventures Revised ~~1/2021~~9/2021

a. *Small Business Exception to Affiliation.* A joint venture of two or more business concerns may submit an offer as a small business without regard to affiliation provided that each concern is small under the size standard corresponding to the NAICS code assigned to the contract, provided:

(1) The procurement qualifies as a “bundled” requirement; or

(2) The procurement does not qualify as a “bundled” requirement, and:

(a) For a procurement having a receipts based size standard, the dollar value of the procurement, including options, exceeds half the size standard corresponding to the NAICS code assigned to the contract; or

(b) For a procurement having an employee-based size standard, the dollar value of the procurement, including options, exceeds \$10 million.

b. *Mentor-Protégé Exception to Affiliation.* A joint venture between a protégé firm and its approved mentor will be deemed small provided the protégé qualifies as small for the size standard corresponding to the ~~NAICS~~NAICS code assigned to the procurement. FAA approved Mentor-Protégé Program joint ventures are acceptable and/or Small Business Administration approved Mentor-Protégé Program joint ventures are acceptable.

c. *Subcontracting Limitations.* The subcontracting limitations specified in AMS Clauses 3.6.1-7, Limitations on Subcontracting and 3.6.1-12 Notice of Service-Disabled Veteran Owned Small Business Set-Aside, are applicable to Small Business Joint Ventures. A joint venture awarded a contract as a prime contractor must perform work according to the conditions and percentages detailed in AMS Clause 3.6.1-7 or 3.6.1-12 as applicable.

d. *Socially and Economically Disadvantaged Businesses (SEDB(8(a)) Exception to Affiliation.*

(1) If approved by the Small Business Administration (SBA), 8(a) participants may enter into joint venture agreement with one or more small business concerns, whether they be 8(a) participants or not, for the purpose of performing a specific 8(a) contract.

(2) A joint venture of at least one 8(a) concern and one or more other business concerns may submit an offer as a small business for a competitive 8(a) procurement as long as each are considered small under the size standard corresponding to the NAICS code assigned to the SIR, provided:

(a) The size of at least one 8(a) Participant to the joint venture is less than one half the size standard corresponding to the NAICS code assigned to the contract; and

(b) For a procurement:

(i) Having a revenue-based size standard, the procurement exceeds half the size standard corresponding to the NAICS code assigned to the contract;

or

(ii) Having an employee-based size standard, the procurement exceeds \$10 million.

(3) For single source and competitive 8(a) procurements that do not exceed the dollar levels identified above, an 8(a) Participant entering into a joint venture agreement with another concern is considered to be affiliated for size purposes with the other concern with respect to performance of the 8(a) contract. The combined annual receipts or employees of the concerns entering into the joint venture must meet the size standard for the ~~NAICS~~NAICS code assigned to the 8(a) SIR or contract.

(e) Service-Disabled Veteran Owned Small Businesses (SDVOSB) Exception to Affiliation.

(1) An SDVOSB may enter into a joint venture agreement with one or more other small business concerns for the purpose of performing an SDVOSB contract.

(2) A joint venture of at least one SDVOSB and one or more other business concerns may enter submit an offer as a small business for a competitive SDVOSB procurement, so long as each concern is small under the size standard corresponding to the NAICS code assigned to the SIR, provided:

(a) For a procurement having a revenue-based size standard, the procurement exceeds half the size standard corresponding to the NAICS code assigned to the contract; or

(b) For a procurement having an employee-based size standard, the procurement exceeds \$10 million.

(3) For noncompetitive and competitive SDVOSB procurement that does not exceed the dollar level identified above, an SDVOSB entering into a joint venture agreement with another concern is considered to be affiliated for size purposes with the other concern with respect to performance of the SDVOSB contract. The combined annual receipts or employees of the concerns entering into the joint venture must meet the size standard for the NAICS code assigned to the SDVOSB SIR or contract.

9 Tiered Evaluations *1/2021*

Refer to AMS guidance on tiered evaluations at T3.2.2.3B.7 for more information.

B Clauses *Revised 10/2006*

[view contract clauses](#)

C Procurement Forms *Revised 9/2021*

[view procurement forms](#)

D

Document Name

D Procurement Samples Revised 9/2021

Document Name

Master Subcontracting Plan

E Procurement Templates Added 9/2021

Document Name

Small Business Set-Aside Determination and Coordination

F Procurement Tools and Resources Added 9/2021

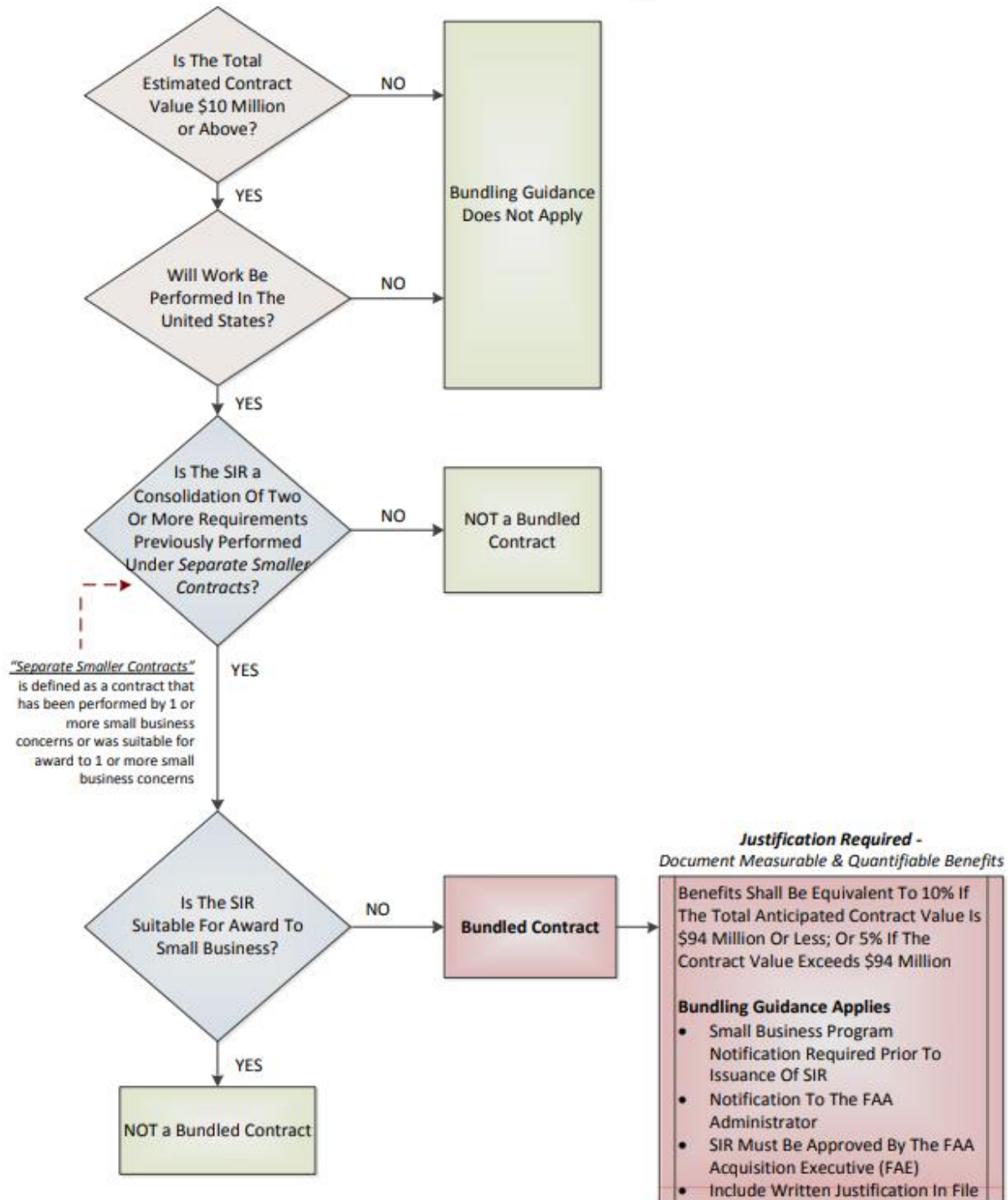
Document Name

Small Business Set-Aside Determination and Coordination Process Flowchart

G Appendix A – Small Business Bundling Decision Flowchart ~~Added 7/2021~~ Revised 9/2021

DECISION FLOWCHART - BUNDLING

AMS Guidance T3.6.1 (7)



Revised 7/2020